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IN THE

Supreme Court of the United States

OCTOBER TERM 1979

No. 79-1653

W. L. WEARLY, INGERSOLL-RAND COMPANY, and THE TORRINGTON COMPANY,

Petitioners,

—v.—

FEDERAL TRADE COMMISSION, *et al.*

Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

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Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

W. L. Wearly, Ingersoll-Rand Company, and The Torrington Company hereby petition for a writ of certiorari to review the judgment and opinion of the United States Court of Appeals for the Third Circuit entered in this case February 8, 1980.

OPINIONS BELOW

The opinion of the Court of Appeals for the Third Circuit, dated February 8, 1980, is not yet reported and is printed in the Appendix hereto at page 1a,[1] together with the unreported Order amending opinion (dated February 13, 1980) (App. 15a) and Order on Petition for Rehearing, Suggestion for Rehearing En Banc, and Amending Opinion dated March 20, 1980. (App. 16a-19a)

The principal opinion of the United States District Court for the District of New Jersey dated October 18, 1978, is reported at 462 F. Supp. 589, and is reprinted at App. 52a. Final judgment was entered on November 29, 1978. (App. 89a) Two subsequent opinions of the District Court (App. 93a, 110a) are unreported. The order of the Federal Trade Commission ("Commission" or "FTC") denying Petitioners' motion to quash the subpoena (App. 128a) is unreported.

JURISDICTION

The judgment of the Third Circuit was entered on February 8, 1980. The Petition for Rehearing and Suggestion for Rehearing En Banc were denied March 20, 1980. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1) (1976).

QUESTION PRESENTED

Whether under *Abbott Laboratories* v. *Gardner*, 387 U.S. 136 (1967); *Toilet Goods Association, Inc.* v. *Gardner*, 387 U.S. 158 (1967); and *Gardner* v. *Toilet Goods Association, Inc.*, 387 U.S. 167 (1967), Petitioners' claims are ripe for judicial determination when a federal agency demands of an individual corporate officer, on

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[1] References to the separately bound Appendix will be "(App. ____)".

pain of criminal penalties, production of corporate documents including proprietary trade secret and confidential business, commercial and financial information, without adequate or enforceable protection against disclosure.

CONSTITUTIONAL PROVISION AND STATUTES INVOLVED

The Fifth Amendment to the United States Constitution, pertinent portions of Sections 6, 9 and 10 of the Federal Trade Commission Act (15 U.S.C. §§ 46, 49, 50), the Trade Secrets Act (18 U.S.C. § 1905), the judicial review provisions of the Administrative Procedure Act (5 U.S.C. §§ 701-06), the Judicial Code of the United States (28 U.S.C. §§ 1331, 1337), and the Declaratory Judgment Act (28 U.S.C. §§ 2201-01), are set forth in the Appendix. (App. 144a *et seq.*)

STATEMENT OF THE CASE

This case presents the important question of whether an individual to whom a Federal Trade Commission subpoena is addressed can obtain pre-enforcement review of a demand for production of documents containing valuable proprietary information without adequate enforceable protection against disclosure, when the FTC threatens him with criminal penalties if the documents are not produced.

Petitioner W.L. Wearly is Chairman of Petitioner Ingersoll-Rand Company, of which Petitioner, The Torrington Company, is a wholly-owned subsidiary. Respondent, Federal Trade Commission, adopted a resolution authorizing compulsory process in an investigation of activities involving Petitioners Ingersoll-Rand and Torrington. Pursuant to the FTC resolution, an FTC sub-

poena and accompanying letter, were issued to Wearly as an individual, commanding him to produce specified documents belonging to Ingersoll-Rand and Torrington, and threatening him with "the penalty imposed by law" if he failed to produce. Enclosed with the letter was a copy of the Commission's Rules of Practice, Section 2.13 (16 C.F.R. § 2.13) of which provides, in relevant part, for "criminal actions" for noncompliance with investigational process. (App. 126a) A copy of the FTC subpoena and accompanying letter to Mr. Wearly are reprinted at App. 127a, 124a. No subpoena was issued to either Ingersoll-Rand or Torrington. (91a at ¶ 8) The "penalty imposed by law" is contained in § 10 of the Federal Trade Commission Act, 15 U.S.C. § 50, (App. 146a), providing that any person who (i) neglects or refuses to produce documentary evidence in obedience to an FTC subpoena is subject to fines and imprisonment for not more than one year; and (ii) "willfully" refuses to submit documentary evidence to the FTC is subject to fines and imprisonment for up to three years.

Thereafter, Petitioners moved the FTC to quash the subpoena, urging, *inter alia*, that the FTC refused to provide adequate or enforceable assurances against disclosure of valuable proprietary information, including trade secret, confidential business, commercial and financial information demanded by the subpoena in advance of production. The Commission itself denied, in relevant part, Petitioners' motion to quash, and required that all documents be delivered to the FTC on September 12, 1977 in advance of any consideration of what protection, if any, would be provided against disclosure.[2] A copy of the

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[2] Petitioners submitted documents and information in response to 17 of the 22 Specifications of the subpoena. The dispute here relates solely to the 5 Specifications which demanded Petitioners' proprietary information.

Commission's final response of August 12, 1977 is reprinted in the Appendix (App. 128a.)

Following the FTC's denial of their motion to quash, Petitioners commenced an action in the United States District Court for the District of New Jersey, seeking declaratory and injunctive relief on the grounds, *inter alia*, that the FTC was not entitled to production of documents containing valuable proprietary information in view of the FTC's refusal to provide adequate protection against disclosure. After Petitioners had commenced their declaratory judgment action, the FTC commenced a proceeding in the United States District Court for the District of Columbia to enforce the subpoena, and obtained an enforcement order.[3]

The New Jersey District Court found that it had plenary jurisdiction under, *inter alia* the Fifth Amendment, as well as 28 U.S.C. §§ 1331 and 1337 (1976), and that the exercise of declaratory relief was proper under the *Abbott* trilogy. (App. 82a, 140a) Under an interim protective order, the court placed the disputed documentary information in *custodia legis*, and made that information available to the FTC. After a trial on the merits of Petitioners' claims for permanent judicial protection for their proprietary information, including *in camera* inspection of representative samples of the disputed documents, the New Jersey District Court issued its opinion (App. 52a) and judgment. (App. 89a)

The opinion held *inter alia*, that (i) declaratory judgment relief was proper in view of the genuine controversy

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[3] The enforcement order was later vacated by the D.C. Circuit on grounds of comity, in view of the conflict between orders of co-ordinate courts created by the enforcement action. See App. 5a at n.1.

between the parties over issues that mainly involved questions of law; (ii) the disputed documents contained proprietary information; (iii) the FTC had no right to disclose such information;[4] (iv) the FTC had no rule or regulation governing protection against disclosure of the information; (v) the FTC had not strictly honored informal agreements not to disclose;[5] and (vi) Wearly was entitled to a protective order because the FTC demanded that the documents be produced before any assurance of protection would even be considered, thus exposing the proprietary information in dispute to destruction through disclosure by the FTC. The District Court thereupon issued a final protective order that continued to make the disputed documents available to the FTC but protected them against improper disclosure. (App. 92a)

On appeal from the judgment and order of the District Court, the Third Circuit found that the evidence introduced in the District Court demonstrated that the FTC had made inappropriate disclosure of proprietary information, and agreed with the District Court that such governmental behavior "simply cannot be countenanced." (App. 7a) The Court of Appeals held, however, that the

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[4] In a subsequent opinion denying the FTC's motion to vacate the judgment, the court, having considered this Court's decision in Chrysler Corp. v. Brown, 441 U.S. 281 (1979), ruled that "[b]oth 18 U.S.C. § 1905 and 15 U.S.C. § 46(f) forbid disclosure of the contested documents." (App. 113a)

[5] The record in this case contains an example in which Petitioner Torrington submitted proprietary shipment data, pursuant to and in reliance upon an Administrative Law Judge's protective order entered in a different matter and calling for 15 days' advance notice of disclosure. The information was published by the Commission *without notice*. (App. 99a-100a) The District Court found that "[t]his sample, by itself, is enough to show that disclosure to the Commission, even under formal rules not available for a nonpublic investigation, entails too great a risk and requires judicial protection." (App. 100a)

District Court lacked jurisdiction to entertain Petitioners' pre-enforcement declaratory judgment action, on the grounds that Petitioners did not satisfy either the "finality" or "hardship" requirements for pre-enforcement review of agency action set out by this Court in the *Abbott* "trilogy", *supra*.

Specifically, the Court of Appeals held that the FTC had not, at the time of the pre-enforcement action, taken a position "on which documents should be subject to what type of confidential treatment," (App. 12a-13a) and that Petitioner Wearly was under no compulsion either to turn over the documents or suffer criminal sanctions, but could await an enforcement proceeding by the FTC, at which time he could interpose all the objections to the subpoena, which he presented to the District Court in the pre-enforcement action, citing *Reisman* v. *Caplin*, 375 U.S. 440 (1964).

REASONS FOR GRANTING THE WRIT

The Court should grant certiorari for the following reasons:

First, the question raised in this Petition is of "general importance . . . in the administration of the investigatory provisions of the Federal Trade Commission Act." *St. Regis Paper Co.* v. *United States*, 368 U.S. 208, 212-13 (1961). The question is critical and recurring,[6] and must be faced daily by persons subpoenaed by government

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[6] *See, e.g.*, Anheuser-Busch, Inc. v. F.T.C., 359 F.2d 487 (8th Cir. 1966) (both company and individual subpoenaed). *See also*, American Motors Corp. v. F.T.C., 601 F.2d 1329 (6th Cir. 1979), *cert. denied*, ___ U.S. ___ 48 U.S.L.W. 3309 (No. 79-306 Nov. 5, 1979); Atlantic Richfield Co. v. F.T.C., 546 F.2d 646 (5th Cir. 1977); First Nat'l. City Bank v. F.T.C., 538 F.2d 937 (2d Cir. 1976) (subpoenas issued to companies).

agencies which operate under statutes similar, in relevant respects, to the Federal Trade Commission Act (hereafter "FTC Act"), who are required to submit proprietary information to government agencies.[7]

Second, the Court of Appeals' decision will effectively eviscerate this Court's holding in *Abbott*, *supra*, that the " 'finality' element" in determining when agency action is ripe for review must be interpreted "in a pragmatic way." 387 U.S. at 149. This Court has reaffirmed its adherence to the *Abbott* policy. *Dunlop* v. *Bachowski*, 421 U.S. 560 (1975).

The FTC's position that it would not even consider providing any protection against disclosure of the proprietary information of Ingersoll-Rand and Torrington prior to production was, by any standard, final: (i) Petitioners' motion to quash on the ground that the FTC provided no protection against disclosure was denied by the FTC; (ii) before the District Court in New Jersey entered its opinion and final protective order the FTC had sought and obtained an enforcement order in another district

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[7] The importance of this question is confirmed by the broad range of businesses who appeared as amici curiae in the Third Circuit. (App. 21a-34a; 35a-51a). In addition to the Chamber of Commerce of the United States and the National Association of Manufacturers, the following associations and corporations appeared below:

Chemical Specialty Manufacturers Association, American Telephone and Telegraph Company, Burlington Industries, Inc., Chemical Manufacturing Association, (formerly Manufacturing Chemist Association), the Dow Chemical Company, Dow Corning Corporation, E.I. DuPont De Nemours & Company, Eli Lilly and Company, General Instrument Corporation, Life Savers, Inc., Monsanto Company, PPG Industries, Inc., Rilsan Corporation, Stauffer Chemical Company, Union Carbide Corporation, U.S. Steel Corporation, Amax, Bethlehem Steel Corp., Electronic Industries Association, Hughes Aircraft, and Wards Cove Packing Company, Inc.

court,[8] and (iii) the FTC adamantly had refused even to look at the documents made available to it under the protective orders of the New Jersey District Court.

As in *Abbott*, the FTC's action in denying the motion to quash and ordering production without protection against disclosure had "reached its complete development"; was "quite clearly definitive"; was not "informal" or "tentative"; and "compliance was expected". 387 U.S. at 150-51. Also as in *Abbott*, judicial resolution of the adequacy of FTC confidentiality procedures would not entangle the courts "in abstract disagreements over administrative policies": the agency's decision in this case had "been formalized and its effects felt in a concrete way by the challenging parties." *Id.* at 148-49.

The evisceration of this Court's holding in *Abbott* as to the "finality" of agency action resulting from the decision of the Court of Appeals applies not only to the case at bar, but also to other respondents to FTC subpoenas because the FTC's position in this case reflects its general policy in administering the FTC Act.

Third, it is respectfully submitted that denial to Petitioners of access to the courts, as the Court of Appeals and other courts[9] have done, on the ground that no "hardship" exists when refusal to comply is based upon a "good faith" challenge, fails to recognize the vagueness, uncertainty, and subjective nature of the "good faith" standard.

In *Reisman* v. *Caplin*, *supra*, this Court considered a pre-enforcement action brought by an individual served with an Internal Revenue Service summons under statu-

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[8] *See* n.3 *supra*.

[9] *See* n.6 *supra*.

tory provisions that have been held to be *in pari materia* with those provisions of the FTC Act in issue here,[10] and held that because a "good faith" challenge to the subpoena protected against imposition of pre-enforcement penalties, the respondent could safely await an enforcement proceeding to assert his objections. 375 U.S. 447-49. The Court gave some examples of what it would apparently consider good faith challenges (objection to lack of protection against disclosure of proprietary information is not among them), apparently contrasted "good faith" challenge to "default" or "contumacious" refusal to comply, but did not otherwise attempt to define "good faith." *Id.*

Petitioner Wearly respectfuly submits that this Court's opinion in *Reisman* does not remove him from "the very real dilemma", *Abbott*, *supra*, 387 U.S. at 153, in which he was put when confronted by the choice of submitting his company's proprietary information to the FTC without protection against destruction through disclosure, or risking criminal penalties if he refused, as may briefly be illustrated by the following:

a. In *St. Regis Paper Co.*, *supra*, St. Regis received an FTC order that commanded production, *inter alia*, of copies of reports that the company had made to the Census Bureau. The company refused to supply the reports on the ground that the FTC had no legal authority to obtain documents the confidentiality of which was protected by statute. 368 U.S. at 215. This Court upheld the imposition of pre-enforcement penalties against the company for withholding the reports from the FTC. 368 U.S. at 226-27. The majority opinion, agreed with the Second Circuit, *United States* v. *St. Regis Paper Co.*, 285 F.2d 607, 614

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[10] Anheuser-Busch, *supra* n.6, 359 F.2d at 490.

(2d Cir. 1960), *aff'd*, 368 U.S. 208 (1961), which held that St. Regis' refusal to submit the reports based on "a wrong guess on a disputed issue of law" was not a "good faith" defense to the imposition of penalties. *See*, 368 U.S. at 224. Mr. Justice Black, Mr Justice Whittaker, and Mr. Justice Stewart believed, *per contra*, that "there was a serious, good-faith controversy concerning the Commission's power to compel disclosure." 368 U.S. at 230 (dissenting opinion).

b. The majority in *St. Regis* further held that the company was remiss in not seeking relief, for example under the Administrative Procedure Act or Declaratory Judgment Act, once the FTC issued a notice triggering statutory penalties after thirty days of default. 368 U.S. at 226. Although it is true that default notice procedures do not apply to an FTC subpoena, the FTC's final decision denying Petitioners' motion to quash directed that the disputed documents be produced thirty days thereafter. (App. 134a) To contend that no pre-enforcement penalties may be imposed for a "good-faith" challenge to a subpoena is to put the "rabbit in the hat" because that question turns on whether a court or jury agrees the respondent refused in good faith to comply with the subpoena. A "wrong guess on a disputed issue of law", even when based on good faith belief, can be, as this Court noted in *Abbott*, "even more costly" than compliance.[11] (387 U.S. at 153).

c. Further indicative of the uncertainty that a good faith refusal to comply with the demands of an FTC subpoena is a defense to pre-enforcement penalties under

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[11] The New Jersey District Court similarly noted that the weakness in the "good faith" standard is that good faith is subjective, not objective. (App. 136a-137a)

§ 10 of the FTC Act is the Senate Report accompanying pending legislation to amend the FTC Act, which states:

> Section 6 [amending § 10] eliminates the threat of criminal sanctions applied to those recipients of a Commission subpena *who in good faith resist* Commission subpenas by making such sanctions inapplicable prior to a judicial order of enforcement. This is similar to the procedures applicable to the enforcement of the subpenas of several other administrative agencies, and it accords the persons who are subjected to a broad investigatory subpena a *reasonable opportunity to obtain judicial review of its legality*. (emphasis supplied). [S. Rep. No. 96-500, 96th Cong., 1st Sess., at 15-16.] (App. 141a-142a; *see also*, 143a)

In view of the foregoing, Petitioners respectfully submit that the *in terrorem* effect of the FTC subpoena issued to Wearly, as an individual, was to put him "in a dilemma that it was the purpose of the Declaratory Judgment Act to ameliorate", *Abbott*, *supra*, 387 U.S. at 152 (footnote omitted): either submit his company's documents and risk destruction of their value through disclosure, or withhold them, await an enforcement action, and take the risk, on pain of criminal penalties, that a court or jury will agree with his belief that his refusal to comply was based on a good faith challenge to the subpoena.

The District Court ruled on the facts and the law that Wearly's fear that he would be in jeopardy of criminal prosecution for refusing to produce the documents was real.[12] In *Abbott*, this Court ruled that the existence of

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[12] On October 19, 1977 the District Court stated:

> In particular, Wearly claims to be in jeopardy of criminal prosecution under 15 U.S. Code section 50, first paragraph; a risk that

statutory criminal sanctions is the governing criteria for pre-enforcement jurisdiction, holding that a subsequent representation by the Department of Justice that it would proceed civilly rather than criminally "should not suffice to defeat" the pre-enforcement action. 387 U.S. at 154.

Petitioners submit that forcing an individual to make such a choice creates the requisite "hardship to the parties of withholding court consideration", *Abbott*, *supra*, 387 U.S. at 149.[13] Petitioners further submit that this Court's opinion in *Reisman* has been erroneously relied upon by the Court of Appeals and other courts[14] in improperly denying to Petitioners, and others similarly situated, access to the courts, contrary to this Court's later decision and policy in *Abbott*, *supra*.

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the parties seem to agree would not apply if the subpoena had been directed to IR.

* * * * *

FTC argues, among other things, that no criminal prosecution appears to have been made under 15 U.S. Code Section 50, but it is understandable that Mr. Wearly prefers not to be the first to be so charged.

For him the impact in that case would be 100 percent. (App. 139a)

[13] At the first hearing in New Jersey, the Court stated:

It has been said where there is a dispute, particularly between citizens and Government agencies, the civilized technique is not to have that confrontation but to use the declaratory judgment and get it answered first. (App. 138a)

[14] *See* n.6 *supra*.

CONCLUSION

For all of the foregoing reasons, this Petition for Writ of Certiorari should be granted.

Respectfully submitted,

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Respondents.

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UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

No. 78-1115
78-1116
78-1117
78-1827
79-1311
79-1976

WEARLY, W. L., INGERSOLL-RAND COMPANY, THE TORRINGTON COMPANY,

v.

FEDERAL TRADE COMMISSION, MICHAEL PERTSCHUK, CHAIRMAN, CALVIN J. COLLIER, DAVID A. CLANTON, M. ELIZABETH HANFORD DOLE, PAUL RAND DIXON, MEMBERS

Wearly, W.L., Ingersoll-Rand Company, The Torrington Company,
Appellants in 78-1115 & 78-1827

Federal Trade Commission, Michael Pertschuk, Chairman, Calvin J. Collier, David A. Clanton, M. Elizabeth Hanford Dole, and Paul Rand Dixon, Members,
Appellants in 78-1116, 78-1117, 79-1311 & 79-1976

APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEW JERSEY
(D.C. Civil No. 77-1860)

Argued November 13, 1979
Before: HUNTER, WEIS and GARTH, *Circuit Judges*
(Opinion Filed February 8, 1980)

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OPINION OF THE COURT

WEIS, *Circuit Judge*.

Reflecting litigants' growing dissatisfaction with the Federal Trade Commission's alleged inadequate protection of trade secrets, plaintiffs sought injunctive relief against enforcement of a Commission subpoena duces tecum. The district court in New Jersey found serious deficiencies in the FTC practices but refused to stay enforcement of the subpoena. The court did order, however, that plaintiffs' documents be placed in custodia legis, permitting the FTC to proceed with its investigation only under protective measures designed to insure the safety of trade secrets. Like the district court, we do not understand the Commission's reluctance to agree to an order that would protect plaintiffs' proprietary interests without restricting the agency's investigation. Nevertheless, we vacate the district court's order and direct that the complaint be dismissed because the matter was not ripe for judicial review.

The Commission issued a subpoena duces tecum in 1976 to plaintiff, W. L. Wearly, Chairman of the Board of

plaintiff Ingersoll-Rand Company. The subpoena sought documents bearing on the corporate acquisition policy of Ingersoll and was part of a Commission investigation into possible antitrust violations by that company and its subsidiary, plaintiff Torrington Company.

Wearly moved before the FTC to quash or limit the subpoena, alleging, among other matters, that some of the documents contained sensitive trade information justifying confidentiality. The Commission refused to quash the subpoena, and after negotiations failed to resolve the issue satisfactorily, plaintiffs sought declaratory and injunctive relief in the United States District Court for the District of New Jersey. The complaint, filed in September 1977, sought a declaration that the FTC did not have the ability to protect the confidentiality of trade secrets properly; documents passed onto Congress might be revealed to competitors; the subpoena was overly broad; and it encroached upon fourth and fifth amendment rights. Plaintiffs also asked that the enforcement of the subpoena be enjoined.

The district court denied the request for a preliminary injunction but issued a stay of enforcement pending appeal. Soon thereafter, the court refused defendants' motion to dismiss. After this court on the FTC's application lifted the stay of enforcement, the Commission precipitously moved to enforce its subpoena in the District Court for the District of Columbia rather than awaiting the outcome on appeal. While the agency's petition was pending in the District of Columbia, the New Jersey district court denied plaintiffs' renewed motion for a preliminary injunction. In response to the Commission's request for discovery, the court ordered that the disputed documents be placed in custodia legis.

On April 27, 1978, the District of Columbia district court issued an order enforcing the subpoena. Four days later, partially in response to that action, the New Jersey district court handed down a more detailed protective or-

der. Under its terms, the FTC was permitted to inspect the documents only at the plaintiffs' offices. The hearings continued in New Jersey but the Commission, in a most curious stance for a governmental agency, refused to participate, relying instead on a res judicata defense grounded on the enforcement order it had obtained in the District of Columbia. That order was eventually vacated by the Court of Appeals for the District of Columbia Circuit.[1]

The New Jersey district court ultimately agreed with plaintiffs that their proprietary rights in trade secrets and other confidential information would be jeopardized by surrendering the documents to the Commission. The court ordered that the documents remain in custodia legis, available for inspection by the FTC under conditions tailored to preserve confidentiality. The last activity in the district court occurred in July of 1979 when the defendants' posttrial motions were denied.[2] All appeals were subsequently consolidated in this court.[3]

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1. In an unpublished decision, FTC v. Wearly, No. 78-1586 (D.C. Cir. 1979), the court of appeals observed that the forum shopping by both litigants had precipitated a "regrettable" conflict in court orders that should not continue. It commented that the FTC could have sought, via counterclaim, the enforcement of its subpoena in New Jersey, which was "not an inconvenient location for this litigation."

This panel also questions the propriety of the FTC's request that this court lift the stay of enforcement without disclosing that it intended immediately thereafter to litigate the same controversy in the District of Columbia. This deliberate creation of conflict between courts of concurrent jurisdiction reflects no credit upon the Commission.

2. The principal opinion of the district court is reported at 462 F.Supp. 589 (D.N.J. 1978). The orders disposing of the posttrial motions were accompanied by unreported opinions.

3. Six appeals have been consolidated: No. 78-1115, plaintiffs' appeal from the initial denial of their request for a preliminary injunction; No. 78-1116, defendants' appeal from the refusal to remove the stay of enforcement pending appeal; No. 78-1117, defend-

This statement of facts is severely compressed, but in view of our disposition, we find it unnecessary to review the considerable and to a large extent unnecessary prolongation of this controversy. The trial court found that the plaintiffs' fear that their confidential business secrets will be made available to competitors, both domestic and foreign, is real. The concern of the district judge that the constitutional rights of the plaintiffs would be violated by the FTC through the destruction by disclosure of valuable trade secrets is understandable. In response, the FTC contends that, as a matter of policy, it does screen documents, and as to those it considers confidential agrees to give ten-days notice to the owners before disclosing pursuant to Freedom of Information Act requests. If, however, a request comes from a congressional committee, the agency concedes it does not assure compliance with the ten-day practice. *See FTC v. Anderson,* —— F.2d ——, —— (D.C. Cir. 1979). *See generally* Johnson, *Treatment of Confidential Documents by the Federal Trade Commission,* 46 ANTITRUST L.J. 1017 (1978).[4]

NOTE 3 — *(Continued)*
ants' appeal from the denial of their motion to dismiss; No. 78-1827, plaintiffs' appeal from the denial of their renewed request for a preliminary injunction; No. 79-1311, defendants' appeal from the denial of their motion to reconsider the judgment; No. 79-1976, defendants' appeal from the denial of their final posttrial motions.

Counsel agreed at oral argument that all issues surviving from the earlier appeals are embraced within the appeal at No. 79-1976. Our examination of the record leads us to the same conclusion. Thus our consideration of No. 79-1976 disposes of all issues before us.

4. We note in passing that at least one court has suggested that congressional action violative of a constitutional right — such as the public disclosure of a trade secret rising to the level of a property interest — could be redressed by judicial action. *See* Exxon Corp. v. FTC, 589 F.2d 582, 590 (D.C. Cir. 1978), *cert. denied,* 441 U.S. 943 (1979).

Evidence introduced in the district court demonstrated that in the past the Commission has made inappropriate disclosures, and the trial judge noted a number of instances where "informal arrangements for confidential treatment of proprietary information were not strictly honored." *Wearly v. FTC*, 462 F.Supp. 589, 607 (D.N.J. 1978). He described the disclosures in one case as "an evasion and a violation of the spirit of an order." *Id.* Although legitimate investigation should not be unduly delayed, we agree with the district judge that the unfortunate disclosures by the FTC of confidential information are the kind of governmental behavior that simply cannot be countenanced.[5]

Nevertheless, while we acknowledge the serious and well-founded concerns that impressed the district court, the initial inquiry must be whether there was jurisdiction to entertain this suit. We start with the basic premise that a subpoena from the FTC is not self-enforcing. The agency must go to the district court and petition for an order directing compliance with the subpoena. In acting on that petition the district court's role is not that of a mere rubber stamp, but of an independent reviewing authority called upon to insure the integrity of the proceeding. "The system of judicial enforcement is designed to provide a meaningful day in court for one resisting an administrative subpoena." *United States v. Security State Bank and Trust*, 473 F.2d 638, 642 (5th Cir. 1973). In the discharge of that duty, the court has the power to condition enforcement

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5. As another example of questionable agency practice, during oral argument, counsel for the plaintiffs described an incident in which the FTC staff telephoned Wearly directly, ordering him to be in court on a certain day. The call occurred while Wearly's attorney was available and, indeed, was in another part of the Commission's office. We accept the FTC's statement at oral argument that such bypassing of counsel was not the policy of the Commission and will not be repeated.

upon observance of safeguards to the respondent's valid interests.[6]

Characterizing its jurisdiction as "plenary," 462 F.Supp. at 604, the district court took strong measures to insure that confidential information would not be "leaked." Although there is evidentiary support for that action, the court erred in not according adequate significance to the possibility that its order might be premature because judicial intervention had been sought at such an early stage of the agency proceedings.

Resort to a court by recipients of investigative subpoenas before an action for enforcement has commenced is generally disfavored. In *Reisman v. Caplin*, 375 U.S. 440 (1964), the Supreme Court held that a preenforcement order enjoining the use of an Internal Revenue subpoena could not be granted because the respondents had an adequate remedy at law: the enforcement hearing was an adversary proceeding affording a judicial forum for challenges to the summons and giving complete protection to the witness. *Id.* at 446. Years before *Reisman* was decided, the Court, in *FTC v. Claire Furnace Co.*, 274 U.S. 160, 174 (1927), *discussed in St. Regis Paper Co. v. United States*, 368 U.S. 208, 225-26 (1961), declined to entertain a suit in equity challenging the scope of an FTC subpoena at the preenforcement stage. Several courts of appeals have followed the *Claire Furnace/Reisman* principle in dismissing similar suits brought against the Commission. *E.g., American Motors Corp. v. FTC*, 601 F.2d 1329, 1335-37 (6th Cir. 1979), *cert. denied*, —— U.S. ——, 48 U.S.L.W. 3309 (No. 79-306 Nov. 5, 1979); *Atlantic Richfield Co. v. FTC*, 546 F.2d 646, 648-49 (5th Cir. 1977); *Anheuser-Busch, Inc. v. FTC*, 359 F.2d 487, 489-91 (8th Cir. 1966).

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6. In FTC v. Johns-Manville Corp., 5 Trade Reg. Rep (CCH) ¶62,830 (D. Colo. Aug. 28, 1979), the district court viewed the ten-day notice procedure of the FTC as "not going far enough to protect the interests involved" and ordered the parties to prepare a more comprehensive protective order as a condition of enforcement.

In some circumstances, however, preenforcement review is necessary. In the trilogy of *Abbott Laboratories v. Gardner*, 387 U.S. 136 (1967); *Toilet Goods Association, Inc. v. Gardner*, 387 U.S. 158 (1967); and *Gardner v. Toilet Goods Association, Inc.*, 387 U.S. 167 (1967), the Court indicated that a district court has jurisdiction to entertain a preenforcement challenge to agency action, but may properly do so only under certain specified circumstances defined in the three cases. In *Abbott*, the Federal Drug Administration issued regulations governing the labeling of prescription drugs. Compliance by the drug companies would have required them to change all of the labels and promotional material, destroy existing stocks of printed matter, and make substantial investments in new supplies. Failure to comply would have exposed them to serious criminal and civil penalties.

The first inquiry undertaken by the *Abbott* Court was whether anything in the statute authorizing agency action prohibited preenforcement review. Finding none,

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Id. at p. 78,794. The court reasoned that the standard of review prescribed in FCC v. Schreiber, 381 U.S. 279 (1965), was not controlling because in that case the agency had acted pursuant to a validly promulgated regulation. The FTC, on the other hand, has not adopted a regulation on confidentiality and acts solely on the basis of agency "practice." FTC v. Johns-Manville Corp., *supra* at p. 78,793; *see* FTC v. Cockrell, 431 F.Supp. 561 (D.D.C. 1977), where the court required a ten-day notice so that the plaintiffs would have an opportunity to protect their interests through subsequent judicial review. *Cf.* United States v. GAF Corp., 596 F.2d 10, 14-15 (2d Cir. 1979) (enforcement of Justice Department Civil Investigative Demand may be conditioned upon protective order).

Apparently, the customary procedure is for the court not to rule on any documents until the Commission has reviewed them and decided whether it will afford confidential status to them. Some care should be taken, however, to prevent unwarranted disclosure during the periods after the information is handed over to the Commission but before it has made its judgment on confidentiality and before the court has had an opportunity to review that determination.

the opinion then moved to the critical issue — whether the controversy was ripe for judicial determination. Two factors were addressed: the fitness of the issues for judicial resolution and the potential hardship to the parties in the event the court were to withhold review. As to the former, the Court determined that whether the FDA properly promulgated the regulation was a controversy essentially legal in nature, one which did not require further factual development. Moreover, the agency action was final in the sense that no further action was contemplated. With respect to the hardship factor, the plaintiffs were faced, on the one hand, with substantial costs of compliance and, on the other, with the possibility of criminal prosecution in the event of noncompliance. Given these circumstances, the *Abbott* Court held that

> "[w]here the legal issue presented is fit for judicial resolution, and where a regulation requires an immediate and significant change in the plaintiffs' conduct of their affairs with serious penalties attached to noncompliance, access to the courts . . . must be permitted, absent a statutory bar or some other unusual circumstance, neither of which appears here."

387 U.S. at 153.[7]

We have applied the *Abbott* ripeness criteria in two cases where the FTC was a party, *A. O. Smith Corp. v. FTC*, 530 F.2d 515 (3d Cir. 1976), and *Exxon Corp. v. FTC* 588 F.2d 895 (3d Cir. 1978). After an exhaustive review of the authorities, the *A. O. Smith* opinion concluded that an FTC resolution requiring submission of line of business forms containing extensive accounting data was reviewable before enforcement was undertaken by the agency. In reaching this result, we first ob-

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7. In the companion case of Toilet Goods Association, Inc. v. Gardner, *supra*, application of the *Abbott* analysis yielded the opposite result — a controversy not ripe for judicial decision.

served that the FTC Act did not proscribe pre-enforcement suits. 530 F.2d at 520. Then, looking to *Abbott*, both the fitness for review and hardship phases of the ripeness test were found to have been met. The FTC action was final and no factual development was necessary; considerable expense would have been required in obeying the regulation; and the agency had advised plaintiffs that penalties would be imposed for a failure to file.

A. O. Smith embodies an important policy decision by this court but differs in critical respects from the case *sub judice*. Most importantly, the court there was not concerned with an agency investigative subpoena, which in the normal course may be reviewed in an enforcement proceeding, but a self-enforcing order designed to expand existing corporate financial reporting. The second case, however, *Exxon Corp. v. FTC, supra*, is quite similar to the one under review.

As in the instant litigation, the *Exxon* court was asked to rule on the protection to be given confidential documents after they had been delivered to the agency. After the Commission issued a protective order, Exxon and Gulf surrendered exceptionally voluminous documents, many of which were confidential. Those two companies and others then sued the FTC in the district court in Delaware, seeking a declaratory judgment that the agency was not providing, and could not, provide adequate protection for the confidential material, and by way of further relief, asked the court to rule that the documents were not obtainable under the Freedom of Information Act. Five months later, while the Delaware suit was still pending, the Commission brought an enforcement suit in the District of Columbia against the other oil companies. That district court granted enforcement without modifying the Commission protective order, rejecting contentions similar to those urged by Exxon and Gulf in the Delaware district court.

We concluded that the *Abbott* test of ripeness should be applied even though Gulf and Exxon were not requesting preenforcement but rather "extra enforcement" review. Since the documents were already in the FTC's possession and because of the extraordinary volume of the documents subpoenaed, we held that the hardship factor was satisfied. The previous FTC review of the protective order constituted the final agency action prerequisite of fitness for judicial decision. But the question of whether the issues before the district court were legal or factual required a differentiation between plaintiffs' claims. The one addressing possible future FOIA requests required factual development and, accordingly, we held the district court was correct in refusing to exercise jurisdiction over that claim. As to the contention that the Commission lacked ability to insure the confidentiality of documents, however, the issues were purely legal, and therefore the district court had erred in refusing to exercise jurisdiction over that claim.

In both *Exxon* and the case at bar, the plaintiffs sought, outside of the enforcement action, to contest the FTC's disclosure policies. To that extent the two cases parallel each other. This case diverges at crucial points, however, from *Exxon,* as well as *A. O. Smith,* and compels a different conclusion — that this case is not ripe for judicial review.

In both *Exxon* and *A. O. Smith,* there were final agency rulings that affected the plaintiffs. In *Exxon,* for example, the plaintiffs elected to treat a Commission ruling on confidentiality as final and delivered the documents to the agency. That is not true, however, with respect to the case at bar. Here the documents have remained in the custody of the court, and although the FTC has been free to examine the papers, the court has retained control.[8] Thus, the agency has yet to take a po-

8. Although the FTC has been offered the opportunity to review all of the documents in custodia legis, it has consistently refused to do so, even though the district court has shown a willing-

sition on which documents should be subject to what type of confidential treatment.

Besides failing to satisfy the *Abbott* requirement of finality, plaintiffs did not establish whether the decision to comply with the subpoena placed them on the horns of a dilemma. Although the FTC sought a contempt action for failure to observe the District of Columbia court order, the court of appeals has resolved that matter by vacating the enforcement order pending resolution of the litigation in this court. At this stage, therefore, the documents being in the custody of the court, Wearly is under no compulsion to either turn over the documents to the FTC or suffer civil or criminal penalties as a result. He is free to await enforcement proceedings, and at that time, or thereafter, may raise his objections to the inadequacy of the FTC confidentiality procedures.[9] Nor does there appear to be any merit to Wearly's assertion that his refusal to comply with the subpoena could expose him to a criminal contempt citation under §10 of the FTC Act, 15 U.S.C. §50. As with the statute at issue in *Reisman v. Caplin, supra* at 447, "[contempt] does not apply where the witness appears and interposes good faith challenges to the summons." *See American Motors Corp. v. FTC, supra* at 1338; *First National City Bank v.*

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ness to consider that the material be taken to Washington D.C. The agency, therefore, must bear its full share of responsibility for any delay in the investigation that has occurred to this point. Clearly, the plaintiffs, though diligent in asserting the alleged deprivation of their proprietary rights, have not prevented the agency from conducting its investigation.

9. To the extent that Wearly may fear disclosure by the FTC of those documents heretofore made available to it under the terms of the district court's custodial order, Wearly may desire to seek protective conditions to be attached to the district court's order of dismissal. Obviously, any such conditions, if imposed, could only be effective until such time as the FTC may bring a subpoena enforcement proceeding against Wearly. If such a proceeding is brought, Wearly may, at that time, raise all the objections to the subpoena that he has presented to us here. *See* note 6 *supra*.

FTC, 538 F.2d 937, 938 (2d Cir. 1976); *Anheuser-Busch, Inc. v. FTC*, *supra* at 490. Here, of course, there is nothing in the record to suggest that Wearly's noncompliance has been contumacious.

Our conclusion that the district court did not have preenforcement jurisdiction in this case does not in any way signify a weakening of the policy established in *A. O. Smith* and *Exxon* but is in fact, in accord with it. The dispute here is simply one that is on the *Reisman* side of the *Reisman/Abbott* fence. *See, e.g., American Motors Corp. v. FTC, supra; Atlantic Richfield Co. v. FTC, supra; cf. Dresser Industries, Inc. v. United States*, 596 F.2d 1231 (5th Cir. 1979) (SEC subpoena).

Accordingly, the judgment of the district court will be vacated, and the court will be directed to dismiss the complaint. Each party to bear its own costs.

A True Copy:

Teste:

Clerk of the United States Court of Appeals for the Third Circuit

ORDER AMENDING OPINION

It is ORDERED that the slip opinion in the above matter is hereby amended as follows:

On page 9, first paragraph, line 10, substitute "Food and Drug Administration" in place of "Federal Drug Administration."

BY THE COURT,

JOSEPH F. WEIS, JR.
Circuit Judge

Dated: February 13, 1980

A True Copy:

Teste:

Clerk of the United States Court of Appeals for the Third Circuit

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

No. 78-1115
78-1116
78-1117
78-1827
79-1311
79-1976

WEARLY, W. L., INGERSOLL-RAND COMPANY,
THE TORRINGTON COMPANY

v.

FEDERAL TRADE COMMISSION,
MICHAEL PERTSCHUK, CHAIRMAN,
CALVIN J. COLLIER, DAVID A. CLANTON,
M. ELIZABETH HANFORD DOLE,
PAUL RAND DIXON, MEMBERS

Wearly, W. L., Ingersoll-Rand Company,
The Torrington Company,
Appellants in 78-1115 & 78-1827

Federal Trade Commission,
Michael Pertschuk, Chairman,
Calvin J. Collier, David A. Clanton,
M. Elizabeth Hanford Dole and
Paul Rand Dixon, Members
Appellants in 78-1116, 78-1117
79-1311 & 79-1976

Present: SEITZ, *Chief Judge*, ALDISERT, ADAMS,
GIBBONS, HUNTER, WEIS, GARTH,
HIGGINBOTHAM and SLOVITER, *Circuit Judges*

ORDER

Upon consideration of the petitions for panel rehearing, rehearing in banc, and request for amendment of opinion in the above matter, it is

ORDERED that the slip opinion is hereby amended as follows:

Page 5, footnote 1, delete the first sentence of the second paragraph. The second sentence of the second paragraph is modified to read:

> The deliberate creation of conflict between courts of concurrent jurisdiction is unseemly and should not be undertaken by the Commission.

Page 7, footnote 5, first sentence is modified to read:

> As another example of questionable agency practice, during oral argument, counsel for the plaintiffs described an incident in which the FTC staff telephoned Wearly directly, ordering him to be "in court" before the Commission on a certain day.

Page 11, first full paragraph, second sentence is modified to read:

> Most importantly, the court there was not concerned with an agency investigative subpoena, which in the normal course may be reviewed is an enforcement proceeding, but an order designed to expand existing corporate financial reporting and self-enforcing to the extent that penalties accrued after notice from the Commission.

Page 11, second full paragraph, first sentence is modified to read:

> The *Exxon* court was asked to rule on the protection to be given confidential documents after they had been delivered to the agency.

Page 13, first full paragraph, is modified to read:

> Besides failing to satisfy the *Abbott* requirement of finality, plaintiffs did not establish whether the decision to comply with the subpoena placed them on the horns of a dilemma. Wearly was under no compulsion to either turn over the documents to the FTC or suffer civil or criminal penalties as a result. He was free to await enforcement proceedings, and at that time, or thereafter, could have raised his objections to the inadequacy of the FTC confidentiality procedures.[9] Nor does there appear to be any merit to Wearly's assertion that his refusal to comply with the subpoena could have exposed him to a criminal contempt . . . .

Page 13, footnote 9, lines 5 through 8, are modified to read:

> Obviously, any such conditions, if imposed, could only be effective until such time as the FTC secures an enforcement order against Wearly. In such a proceeding, Wearly may raise all the objections to the subpoena that he has presented to us here. *See* note 6 *supra*.

In all other respects, the petition for amendment of the opinion is denied.

IT IS FURTHER ORDERED that the petition for rehearing filed by W. L. Wearly, Ingersoll-Rand Company, and The Torrington Company, having been submitted to the judges who participated in the decision of this court and to all the other available circuit judges of the circuit in regular active service, and no judge who concurred in the decision having asked for rehearing,

and a majority of the circuit ju lges of the circuit in regular active service not having voted for rehearing by the court in banc, said petition for rehearing is denied.

BY THE COURT,
JOSEPH F. WEIS, JR.
Circuit Judge

DATED: March 20, 1980

A True Copy:

Teste:

Clerk of the United States Court of Appeals
for the Third Circuit

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

Nos. 78-1115/78-1117
78-1827, 79-1311 and 79-1976

WEARLY, W. L., INGERSOLL-RAND COMPANY, THE TORRINGTON COMPANY
Appellants in Nos. 78-1115 and 78-1827

vs.

FEDERAL TRADE COMMISSION, MICHAEL PERTSCHUK, CHAIRMAN, CALVIN J. COLLIER, DAVID A. CLANTON, M. ELIZABETH HANFORD DOLE, PAUL RAND DIXON, MEMBERS
Appellants in Nos. 78-1116/17
79-1311 and 79-1976

(D. C. Civil No. 77-1860)

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEW JERSEY

Present: HUNTER, WEIS and GARTH, *Circuit Judges*

JUDGMENT

This cause came on to be heard on the record from the United States District Court for the District of New Jersey and was argued by counsel on November 13, 1979.

On consideration whereof, it is now here ordered and adjudged by this Court that the judgment of the said District Court, entered December 4, 1978, be, and the same is hereby vacated and the cause is remanded to the said district court which is hereby directed to dismiss the complaint, all of the above in accordance with the opinion of this Court. Each party shall bear its own costs.

ATTEST:

Clerk

February 8, 1980

United States Court of Appeals

FOR THE THIRD CIRCUIT

WEARLY, W.L., INGERSOLL-RAND COMPANY, THE TORRINGTON COMPANY,

Plaintiffs-Appellees,

v.

FEDERAL TRADE COMMISSION, MICHAEL PERTSCHUK, CHAIRMAN, CALVIN J. COLLIER, DAVID A. CLANTON, M. ELIZABETH HANFORD DOLE, PAUL RAND DIXON, MEMBERS,

Defendants-Appellants.

Nos. 78-1115/6/7
78-1827
79-1311

BRIEF OF AMICI CURIAE CHEMICAL SPECIALTY MANUFACTURERS ASSOCIATION, AMERICAN TELEPHONE AND TELEGRAPH COMPANY, BURLINGTON INDUSTRIES, INC., CHEMICAL MANUFACTURERS ASSOCIATION (FORMERLY MANUFACTURING CHEMIST ASSOCIATION), THE DOW CHEMICAL COMPANY, DOW CORNING CORPORATION, E. I. DUPONT DE NEMOURS & COMPANY, ELI LILLY AND COMPANY, GENERAL INSTRUMENT CORPORATION, LIFE SAVERS, INC., MONSANTO COMPANY, NATIONAL ASSOCIATION OF MANUFACTURERS, PPG INDUSTRIES, INC., RILSAN CORPORATION, STAUFFER CHEMICAL COMPANY, UNION CARBIDE CORPORATION ANI U.S. STEEL CORPORATION URGING THE COURT TO CONFIRM THE DISTRICT COURT'S HOLDINGS THAT A TRADE SECRET OWNER'S PROPERTY RIGHTS MERIT ADEQUATE AND ENFORCEABLE SAFEGUARDS TO PREVENT AGENCY DISCLOSURE

Preliminary Statement

This amicus brief voices a fundamental, widespread concern that companies not be required to jeopardize their valuable trade secrets through disclosure to administrative agencies unless there are adequate and enforceable safeguards to prevent disclosure to third parties.

The entities submitting this brief represent a cross section of American industry, companies which—like hundreds of other large and small enterprises—have invested their funds and efforts developing trade secrets that enable each developer to enhance its competitive position. These trade secrets include processes by which products are made and details of composition of products. They also comprise cost and profitability data, marketing plans, concepts for new products, pricing strategies and other competitive concepts. Because of the importance of such information in our competitive landscape, and because of the increasing number of instances of its forfeiture by reason of federal or state agency disclosure—intended or inadvertent—we respectfully urge that this Court affirm the property right analysis of the District Court, thereby clarifying that regulatory access to such information is properly conditioned upon adequate and enforceable safeguards to prevent unauthorized disclosure.

Statement of the Case

This amicus brief is filed solely on the issue of whether an administrative agency may compel the disclosure of valuable trade secrets without first providing reasonable safeguards to assure that the trade secrets will not be improperly made available to others. Since we do not address the other issues in this case, we confine our statement of the case accordingly.

The FTC issued a subpoena *duces tecum* for information in connection with an administrative investigation. Among the documents sought were valuable trade secrets which if disclosed

to respondent's competitors would terminate respondent's significant competitive advantage. The witness declined to produce only those documents containing the trade secrets unless the agency first provided adequate and enforceable safeguards to assure nondisclosure. Failing such safeguards, respondents sought and obtained orders of the Court below that disclosure need not be made until adequate and enforceable safeguards against improper disclosure are provided; this appeal resulted. At all times since the District Court's orders, the documents for which the witness seeks safeguards have been under that Court's custody and fully available for inspection and analysis by the FTC for purposes of its nonpublic investigation.

Unfortunately this case is characterized by a near Baroque procedural complexity* that may tend to obscure the central issue of whether certain technological and business information is property which entitles its holder to adequate and reasonable safeguards against unauthorized disclosure by an agency. Your amicus parties therefore earnestly and respectfully urge this Court to take the occasion, in wending its way through the procedural thicket here, to lend its imprimatur to the District Court's "property right hence need for adequate safeguards" analysis and lend appropriate guidance. It is, moreover, urged that the Court's review and determination of that analysis is inherently pertinent to determination of several issues before this Court, including the FTC's appeal from the District Court's denial of the FTC's motion to dismiss.

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* In this Court, there are several appeals pending, motions for dismissal, vacation, for alternative relief and the like. In an enforcement action commenced by the FTC in the District Court of the District of Columbia, enforcement orders were granted but reversed by the D.C. Circuit, FTC v. Wearly, No. 78-1586, slip op. at 3-6 (D.C. Cir. May 9, 1979). The FTC has now moved for rehearing before the D.C. Circuit en banc.

Accordingly, although this Court could render a decision on alternative grounds, the public policy importance of the District Court's property-based analysis, 462 F. Supp. 589, the leitmotif of all the rulings and opinions below, merits this Court's direct attention. Recognition of the public policy importance of a lower court ruling that has, as it was bound to do, produced widespread awareness, would not be improvident. In *Painton & Co. v. Bourns, Inc.*, 442 F.2d 216, 222 (2d Cir. 1971), Judge Friendly's election to correct the lower court's public policy errors, although an alternative basis for decision was available, provided a great service to the Bench and the Bar. *Painton's* appellate analysis proved helpful to numerous courts, including the Supreme Court in its landmark decision in *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 484-90 (1974). Here, this Court's recognition of the correctness of the lower court's underlying policy analysis would render a similar service.

I.

TRADE SECRETS ARE VALUABLE PROPERTY RIGHTS WHICH SHOULD BE, AND ARE, ACCORDED LEGAL PROTECTION AGAINST UNAUTHORIZED USE AND DISCLOSURE

The commonly accepted definition of a trade secret is supplied by IV Restatement of Torts § 757, comment b (1939) ("Restatement, Comment b"). *Aronson v. Quick Point Pencil Co.*, 99 S. Ct. 1096, 1101 (1979). Under that definition, trade

secrets are technological or business information* used in one's business in secrecy, not generally known within that sector of business, which lends a competitive advantage. The Restatement Comment b definition has been adopted by New Jersey and Connecticut—the states in which the instant trade secrets subpoenaed by the FTC were located, *Sun Dial Corp. v. Rideout*, 29 N.J. Super. 361, 366, 102 A.2d 90, 92 (Super. Ct. App. Div.), *aff'd*, 16 N.J. 252, 108 A.2d 442 (1954); *Plastic & Metal Fabricators, Inc. v. Roy*, 163 Conn. 257, 264-65 nn.2-3, 303 A.2d 725, 729 nn.2-3 (1972). The Restatement Comment b definition has also been relied on by the Supreme Court, *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 474 (1974), and by this Court and other courts in this Circuit. *Mixing Equipment Co. v. Philadelphia Gear, Inc.*, 436 F.2d 1308, 1313 (3d Cir. 1971); *Sperry Rand Corp. v. Pentronix, Inc.*, 311 F. Supp. 910, 913 (E.D. Pa. 1970); *Thiberg v. Bach*, 107 F. Supp. 639, 642 (D.N.J. 1952), *aff'd mem.*, 203 F.2d 956 (3d Cir. 1953). It has been approvingly cited in every other federal circuit, and in at least 22 states other than New Jersey and Connecticut, including California, Delaware, Georgia, Illinois, Maryland, Massachusetts, Michigan, Missouri, New York, North Carolina, Ohio, Pennsylvania and Texas. *See* 1 Milgrim, TRADE SECRETS § 2.01 n.2 (1967, as supplemented, 1978).

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*The District Court had before it information pertaining to

> "trade secrets, secret processes and secret devices, but also a great mass of management data, evaluation, plans, production and production results of a kind that traditionally and historically is never disclosed outside the company, except on protected and privileged conditions usually established by contract, nor even within the company except to those persons who have a 'need to know' the information in order to execute their functions." 462 F. Supp. at 593.

The bulk of such information, characterized by the Court below as "proprietary information," *ibid.*, falls squarely within the Restatement Comment b definition.

Certain types of business information, although not strictly qualifying for trade secret protection, may nonetheless be entitled to protection from disclosure by federal agencies by reason of 18 U.S.C. § 1905 as its principles are imported into APA § 10. *See* Chrysler Corp. v. Brown, 99 S. Ct. 1705, 1725-26 (1979). This brief is not addressed to such information although, for independent reasons, similar procedural safeguards are appropriate.

Perhaps the most customary recognition of the trade secret owner's property is his right to prevent unauthorized use or disclosure, typically in the employer-emp oyee situation. *See, e.g., Town & Country Houses & Homes Services, Inc. v. Evans,* 150 Conn. 314, 319-20, 189 A.2d 390, 393-94 (1963); *Irvington Varnish & Insulator Co. v. Van Norde,* 138 N.J. Eq. 99, 104, 46 A.2d 201, 203 (Ct. Err. & App. 1946); *Club Razor & Blade Manufacturing Corp. v. Bindzsus,* 131 N.J. Eq. 283, 288, 25 A.2d 31, 34 (Ch. 1942), *aff'd,* 133 N.J. Eq. 38, 30 A.2d 31 (1943).

Trade secrets are recognized as property under state law in a variety of other settings as well. For example, under state law principles trade secrets are recognized as property (a) subject to assignment, *Pomeroy Ink Co. v. Pomeroy,* 77 N.J. Eq. 293, 296, 78 A. 698, 699 (1910); *Painton & Co. v. Bourns, Inc.,* 442 F.2d 216, 223-25 (2d Cir. 1971) (applying California law); (b) which is valid consideration for the issuance of corporate stock, *see Vulcan Detinning Co. v. American Can Co.,* 72 N.J. Eq. 387, 390, 67 A. 339, 341 (1907); (c) eligible to be licensed, *Painton & Co. v. Bourns, Inc., supra; In re Vericker,* 446 F.2d 244, 248 (2d Cir. 1971); and (d) capable of being stolen in violation of penal statutes, *see, e.g.,* N.J. Rev. Stat. § 2A:119. *Cf. State v. Landecker,* 100 N.J.L. 195, 126 A. 408 (Sup. Ct. 1924) (upholding conviction under "corrupt influencing" statute for bribing employee to wrongfully disclose his employer's trade secrets).

The determination below that the property status of trade secrets under state law must be considered in implementing the policies of federal laws is consistent with numerous other decisi ns recognizing state trade secret law in federal contexts. The Supreme Court recognized state trade secret law in *Kewanee Oil Co. v. Bicron Corp.,* 416 U.S. 470, 472, 474-76 (1974), holding "that state law forbidding the misappropriation of trade secrets was not preempted by federal patent law," and similarly ruled as governing state contract law relating to transactions in intellectual property which may or

may not be patentable. *Aronson v. Quick Point Pencil Co.*, 99 S. Ct. 1096, 1099-1101 (1979). This Court has just recently noted the property interest the holder of such information has, which right gives rise to the need to provide appropriate safeguards to preserve them even if they must be used in a criminal trial. *United States v. RMI Co.*, No. 78-2691, slip op. at 13-14 (3d Cir. May 2, 1979).*

The District Court's conclusion—which is at one with this Court's expression in *United States v. RMI Co., supra*—that trade secrets are property under controlling state law accords with the wide recognition of their property status under federal statutes. For example, federal statutes recognize the property status of trade secrets as: (a) property comprising capital assets in the hands of their owners, for tax purposes, Internal Revenue Code of 1954 seq., § 1221 and *see* 9 CCH Stan. Fed. Tax. Rep. ¶8603, *All About Know-How—The Tax Treatment Of Unpatented Technology* (1974); (b) property comprising assets for purposes of Section 7 of the Clayton Act, 15 U.S.C. § 18, *United States v. Allied Chem. Corp.*, 1964 CCH Trade Cas. ¶71,193 (S.D.N.Y. 1964), *consent judgment entered, id.* at ¶71,311 (1965); (c) "such personal property or chattels as are ordinarily a subject of commerce" and hence goods for purposes of

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* There are other instances where federal rules or statutes look to state definitions of property. For example, in the administration of a bankrupt's property by a trustee in bankruptcy, the state law definition of property is controlling; therefore, if a customer route list is recognized as property under the trade secret law of the particular state, it is within the property to be administered. In re Uniservices, Inc., 517 F.2d 492, 495-96 (7th Cir. 1975).

For purposes of constitutional analysis, "property" for which just compensation must be given if taken is recognized as the citizen's rights with respect to the "thing." United States v. General Motors Corp., 323 U.S. 373, 377-78 (1945). Since the trade secret owner's property rights primarily consist of the right to prevent unauthorized use and disclosure, Point II, *infra*, conduct which significantly puts in jeopardy those rights does, as the District Court observed, raise constitutional issues. *See* 462 F. Supp. at 598-602.

the federal Theft of Goods Act, 18 U.S.C. § 2314, *United States v. Seagraves*, 265 F.2d 876, 880 (3d Cir. 1959); *accord, In re Vericker*, 446 F.2d 244, 248 (2d Cir. 1971); *United States v. Bottone*, 365 F.2d 389, 393 (2d Cir.), *cert denied*, 385 U.S. 974 (1966); *American Cyanamid Co. v. Sharff*, 309 F.2d 790, 796 (3d Cir. 1962); *United States v. Lester*, 282 F.2d 750, 754 (3d Cir. 1960), *cert. denied*, 364 U.S. 937 (1961); (d) property of a bankrupt subject to the control of the debtor in possession under federal bankruptcy procedures, *In the matter of Bettinger Corp.*, 197 F. Supp. 273 (D. Mass. 1961) (e) property subject to seizure under the alien property laws, *Mulhens & Kropff, Inc. v. Ferd Muelhens, Inc.*, 22 F.2d 191, 192 (S.D.N.Y. 1927); and (f) property supporting a right of intervention to protect one's interest therein, *Formulabs, Inc. v. Hartley Pen Co.*, 275 F.2d 52, 56-57 (9th Cir.), *cert. denied*, 363 U.S. 830 (1960). *See* other federal "property" analyses collected at *Zotos International, Inc. v. Kennedy*, 460 F. Supp. 268, 272-73 (D.D.C. 1978). A listing of numerous federal statutes evidencing Congress's pervasive concern to protect matter comprising trade secrets is collected at 1 Milgrim, TRADE SECRETS § 6.02B (1967, as supplemented, 1978).

While the District Court's rulings to impose safeguards could be affirmed on a number of independent grounds, we respectfully urge that this Court give proper recognition to the property status of trade secrets and the holder's consequent entitlement to safeguards. *United States v. RMI Co.*, No. 78-2691, slip op. at 13-14 (3d Cir. May 2, 1979).

II.

PROTECTION AGAINST DISCLOSURE IS ESSENTIAL TO MAINTAINING THE PROPERTY RIGHTS IN A TRADE SECRET

The essence of the property right in a trade secret is protection against "disclosure or unauthorized use of the trade secret by those to whom the secret has been confided under the express or implied restriction of nondisclosure or nonuse."

Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 475 (1974); *United States v. E.I. DuPont de Nemours & Co.*, 288 F.2d 904, 911 (Ct. Cl. 1961). It is the trade secret owner's right to disclose subject to limitations on further use or disclosure, including conditioning future use on payment of royalty, which is essential to trade secret licensing. *Aronson v. Quick Point Pencil Co.*, 99 S. Ct. 1096 (1979). Because a trade secret is effectively destroyed if it is readily available, Restatement Comment b; *Carson Products Co. v. Califano*, No. 77-1603, slip op. 4652, 4660-61 (5th Cir. May 4, 1979) (information "readily ascertainable without engaging in tortious activity" cannot continue to be a trade secret), a trade secret owner's sole hope of prevention of loss of that property resides in the ability to safeguard it from unauthorized disclosure. Indeed, to maintain his property rights, the owner of a trade secret is obliged to take reasonable measures to guard secrecy. *See, e.g., Greenberg v. Croydon Plastics Co.*, 378 F. Supp. 806, 812, *order vacated and replaced with one better framed to give effect to trade secret holding*, 378 F. Supp. 806 (E.D. Pa. 1974); *Sun Dial Corp. v. Rideout*, 29 N.J. Super. 361, 368, 102 A.2d 90, 94 (Super. Ct. App. Div.), *aff'd*, 16 N.J. 252, 108 A.2d 442 (1954).

Thus compelling disclosure in circumstances in which a competitor might obtain access to a trade secret would constitute an unconstitutional taking of a key property right, without compensation, in violation of the fifth amendment to the Constitution. *United States v. General Motors Corp.*, 323 U.S. 373, 377-78 (1945) (property in the fifth amendment sense is the rights concerning things).

Trade secret principles and protection against unauthorized disclosure do not hinder independent development by the use of fair means. *Id.* at 476; Restatement, Comment b. Trade secret law is thus independent of and complementary to the federal patent scheme and is an important part of our overall system to encourage innovation and inventiveness. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 482-93 (1974); *Painton & Co. v. Bourns, Inc.*, 442 F.2d 216, 223-25 (2d Cir. 1971).

III.

SAFEGUARDS ARE NECESSARY IN LIGHT OF FOIA AND OTHER BASES WHICH MAY LEAD TO IMPROPER DISCLOSURES

The FTC and its staff is prohibited from disclosing a company's trade secrets under the FTC Act itself, 15 U.S.C. § 46(f), and federal criminal law, 18 U.S.C. § 1905. Unfortunately, these provisions might not provide adequate protection because the FTC's posture is simply that it, not the subpoenaed party, "have control of the decision whether to disclose" the contents of subpoenaed documents. Memorandum Op. dated Nov. 30, 1978, p. 2. Thus, absent effective safeguard procedures, including adequate prior notice of any proposed disclosure by the agency, and an opportunity for the submitter to be heard and, if the administrative determination be adverse, appeal to a court, a trade secret might be disseminated to private parties seeking it under the Freedom of Information Act, 5 U.S.C. § 552 ("FOIA"), thus destroying the property right before an opportunity for judicial review. To prevent such an improper disclosure, the Supreme Court has held that one who submits information claimed to be a trade secret may commence an action to prevent an administrative agency from disclosing it. *Chrysler Corp. v. Brown,* 99 S. Ct. 1705, 1713 (1979), *aff'g in relevant part Chrysler Corp. v. Schlesinger,* 556 F.2d 1172 (3d Cir. 1977).

Unless, however, the agency is required to give the submitter sufficient prior notice of an agency's intention to release such information, this right would be meaningless.* And the District Court expressly found that the FTC had no rule in effect

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* *See* Carson Products Co. v. Califano, No. 77-1603, slip op. 4652, 4658 (5th Cir. May 4, 1979), confirming that the essence of due process is the requirement that "the proprietor of an alleged trade secret must be allowed to respond to the sources cited by the agency with an opportunity for meaningful agency review of that response before the [agency] determination [to release FOIA-sought information] becomes final." *Accord,* Zotos International, Inc. v. Kennedy, 466 F. Supp. 268 (D.D.C. 1978).

assuring such notice and procedural safeguards. 462 F. Supp. at 602-03. For, once there is improvident disclosure by the FTC to a competitor, the presumably valuable property rights in the subpoenaed information would be destroyed. That is a harsh and unnecessary prospect, since the FTC's interests and the subpoenaed parties can be fairly balanced by adequate safeguards. *United States v. RMI Co.*, No. 78-2691, slip op. at 13-14 (3d Cir. May 2, 1979). Indeed, in light of *Chrysler Corp. v. Brown*, 99 S. Ct. 1705 (1979), a sister circuit has instructed a District Court to hold an evidentiary hearing to determine whether confidential commercial information claimed to be a trade secret was, despite the passage of three to four years, prohibited from disclosure under FTC Act § 6(f), 15 U.S.C. § 46(f). *Interco Inc. v. FTC*, No. 79-1423, slip op. at 2-3 (D.C. Cir. May 17, 1979).

In the face of a broad legislative scheme to protect trade secrets and fundamental property rights in them, trade secrets, although confidentially submitted and legended, frequently are made available by federal regulatory agencies to persons demanding them under FOIA, often in a manner which leaves the submitter no effective remedy.* Indeed, as the District Court noted, there was unauthorized publication of matter submitted by one of the plaintiffs subject to an administrative judge's protective order as a third party witness in another proceeding. *See* Memorandum Op. dated Nov. 30, 1978 pp. 4-5.

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* A sampling of journalistic comment upon the abuse of FOIA procedures includes, *e.g.*, M. Tuthill, ***The Problems of Privacy: Despite Congress's good intentions, two laws have led to personal and business abuses of confidentiality,*** Nation's Business, March 1979, p. 39; ***Freedom of Information Act windfall: Business interests have made big use of data access law, frequently to get valuable clues to competitors' activities,*** Chemical Week, Jan. 4, 1978, p. 37; B. Schorr, ***Telling Tales: How Law Is Being Used To Pry Business Secrets From Uncle Sam's Files: Public Interest Act Becomes Avenue for Competitors In Getting Firms' Data,*** Wall St. J., May 9, 1977, p. 1, col. 6; Kiplinger Washington Letter, March 30, 1979 ("***Misuse of the Freedom of Information Act*** is getting out of hand. ***Businesses are being hurt,*** their secrets revealed to competitors. Data given to gov't under various other laws are open to anyone who asks.") (Emphasis in original text.)

Certainly the seriousness of the problem justifies the insistence upon judicial safeguards which will permit effective administration of agency functions without destruction of valuable trade secrets and confidential business information. Sufficient prior notice to the submitter is essential to allow, where necessary, a suit of the type recognized as proper in *Chrysler Corp. v. Brown*, 99 S. Ct. 1705 (1979). The District Court's insistence on adequate and enforceable safeguards should be affirmed. It thoughtfully anticipated this Court's concern in *United States v. RMI Corp., supra*, to provide a fair balance between the competing interests in a manner avoiding unnecessary clash. *Accord, Interco Inc. v. FTC, supra.*

This suggestion gives full effect to the long-standing rule that trade secrets are not privileged from disclosure in judicial proceedings, to the extent relevant and necessary, 462 F. Supp. at 594, subject to safeguards adequate to insure that the ends of justice are accomplished without undue jeopardy to this valuable property. Judicial superintendance of the disclosure of matters entitled to secrecy is not only an appropriate function; it is a function that requires the closest judicial attention. *Douglas Oil Co. v. Petrol Stops Northwest*, 99 S. Ct. 1667, 1677-78 (1979) (the District Court abused its discretion by failing to gather substantiated evidence before ruling on termination of grand jury secrecy and disclosure). As this Court has succinctly ruled:

> "If such disclosure is actually necessary it must of course occur, but only with appropriate safeguards taken in the interest of preserving property rights in confidential business information." *United States v. RMI Co., supra.*

With strong judicial guidelines, federal and, incidentally, state agencies may vigorously pursue their proper activities, aided by the knowledge that they will be able to receive trade secret and confidential business information from private parties—which can be fully cooperative—because the courts will, in the appropriate case, supply necessary safeguards where the agency may have failed to do so, as in this case.

Laying out such procedure need not, moreover, impair the public's view of governmental functions. To the laudable extent that FOIA is intended to place government in the sunshine, in the right belief that sunshine is the best disinfectant, it is submitted that under well established, existing judicial techniques, that goal can be furthered simply by fashioning protective techniques which will keep proprietary information proprietary while at the same time disclose sufficient generalities to permit the public to assess governmental functioning. But there can be no justification for a situation—which exists de facto with depressing frequency—in which submission of valuable proprietary information to agencies is tantamount to dedication to the public. That serves no proper public interest and, as the District Court below observes, raises serious, direct constitutional questions, which the District Courts' proposed safeguards obviate.

The problem of agency disclosure of trade secrets and confidential business information is of utmost concern to the business community.

CONCLUSION

Administrative agencies can duly discharge their duties without jeopardizing the property rights that trade secret holders have. By statute or administrative regulation, trade secret data should be subject to prohibition against disclosure save after notice to the submitter, an adequate opportunity to voice objections to proposed disclosure and to have judicial review of an adverse ruling. In the absence of meaningful express safeguards governing (and in fact followed by) the agency, a holder's property right in a trade secret merit, at the holder's request, imposition of judicial safeguards to achieve

the appropriate balance between the competing interests of administrative goals and private property rights.

Respectfully submitted,

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NO. 79-1976

IN THE

UNITED STATES COURT OF APPEALS

FOR THE THIRD CIRCUIT

WEARLY, W.L., INGERSOLL-RAND COMPANY, THE TORRINGTON COMPANY,

Plaintiffs-Appellees,

vs.

FEDERAL TRADE COMMISSION, MICHAEL PERTSCHUK, Chairman,
CALVIN J. COLLIER, DAVID A. CLANTON,
M. ELIZABETH HANFORD DOLE, PAUL RAND DIXON,
Members,

Defendants-Appellants.

ON APPEAL FROM
U. S. DISTRICT COURT FOR THE DISTRICT OF NEW JERSEY
Honorable Vincent P. Biunno

BRIEF OF AMICUS CURIAE
WARDS COVE PACKING COMPANY, INC.

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IN THE

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Defendants-Appellants.

BRIEF OF AMICUS CURIAE
WARDS COVE PACKING COMPANY, INC.

STATEMENT OF THE INTEREST OF AMICUS CURIAE

Amicus curiae Wards Cove Packing Company, Inc., (hereinafter "Wards Cove") submits this brief pursuant to Federal Rule of Civil Procedure 29. Wards Cove is a defendant in pending federal civil antitrust litigation, In re Bristol Bay, Alaska, Salmon Fishery Antitrust Litigation, MDL No. 249 (W.D. Wash., consolidated Dec. 3, 1976), in which it has resisted plaintiffs' attempts to discover certain trade secrets and other confidential commercial information on the grounds of irrelevancy and privilege. Unbeknownst to Wards Cove, plaintiffs in that action have since secured

the information through a Freedom of Information Act request to the Federal Trade Commission and have disseminated it to Wards Cove's co-defendant competitors. This information was released by the FTC without notice to Wards Cove. It contained extremely confidential financial data which had remained secure from the public and from company competitors and employees until its release.[1/] Some of the information was released through an admitted error of the FTC. (Copies of pertinent correspondence are attached hereto, including the unsigned letter of the FTC dated February 1, 1979.)

Amicus is familiar with the issues involved in the case at bar. This court's disposition of the lower court's decision that a party need not disclose trade secrets to the FTC without prior assurance against improper disclosure will have widespread impact on the business community, as other amici curiae herein have discussed. See Brief of Amici Curiae, Nos. 78-1115-7, 78-1827, 79-1311 (3d Cir., May 31, 1979). Accordingly, amicus will confine this brief to the following issue:

> Whether failure to condition administrative agency access to trade secrets and other confidential commercial information upon the use of adequate and enforceable safeguards against unauthorized disclosure will undermine the qualified privilege of such information under the Federal Rules of Civil Procedure.

STATEMENT OF THE CASE

Amicus curiae adopts the statement of the case set forth in the briefs of plaintiffs-appellees and prior amici curiae.

ARGUMENT

A. Trade secrets and other confidential commercial information enjoy a qualified privilege against discovery under the Federal Rules of Civil Procedure.

Federal Rule of Civil Procedure 26(b)(1) permits "discovery regarding any matter, not privileged, which is relevant to the subject matter involved in the pending

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1. Wards Cove Packing Company, Inc., is an Alaskan corporation engaged in the business of seafood processing. It is closely held, being ninety percent owned by the family of A. W. Brindle (1900-1977), who founded the company in 1928. It is a partner with Castle & Cooke, Inc., in a joint venture entitled Columbia Wards Fisheries.

action . . . ." Although trade secrets and other confidential commercial information are not absolutely privileged against discovery, the courts have generally recognized that they are subject to a qualified privilege. E.g., Hartley Pen Co. v. United States District Court, 287 F.2d 324, 330 (9th Cir. 1961).[2/] Recognizing that the value of a trade secret lies in its confidential nature, the Court of Appeals for the Ninth Circuit has characterized the qualified privilege as a balancing between the right of one party to discover relevant and necessary evidence and the policy of protecting the other party from disclosure of secrets that are neither necessary nor relevant. Id. at 328. Thus, the party seeking disclosure may obtain discovery of trade secrets or other confidential commercial information only upon a showing of necessity and relevance. Id. at 328, 330; accord, Covey Oil Co. v. Continental Oil Co., 340 F.2d 993 (10th Cir. 1965), cert. denied, 380 U.S. 964 (1965).

Even where relevance and necessity exist, the right to obtain discovery of trade secrets is not absolute. To prevent "annoyance, embarrassment, oppression, or undue burden or expense," the court may order that trade secrets or other confidential commercial information "not be disclosed or be disclosed only in a designated way" under FRCP 26(c)(7). For instance, a protective order may prohibit use of the confidential information outside the instant litigation or may limit its dissemination to the party seeking discovery and his counsel. 4 J. Moore & J. Lucas, Moore's Federal Practice ¶ 26.60[4] at 26-248 (2d ed. 1979). The policy favoring protection of trade secrets and other confidential commercial information is therefore clearly present in the Federal Rules of Civil Procedure.

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2. The Ninth Circuit granted a writ of mandamus directing that an order requiring disclosure of a trade secret be set aside. The court granted the extraordinary remedy even though the discovery order was nonappealable to "prevent a grave miscarriage of justice". 287 F.2d at 327.

B. Permitting administrative agency access to trade secrets and other confidential commercial information without prior assurance against unauthorized disclosure would destroy the qualified privilege against discover /.

The qualified privilege against discovery of trade secrets or other confidential commercial information will become meaningless if an administrative agency such as the FTC may compel their disclosure without prior assurance that adequate and enforceable procedures exist to safeguard against unauthorized disclosure. As the United States Supreme Court has recognized, this risk of subsequent disclosure has become particularly acute since the enactment of the Freedom of Information Act, which permits members of the public to obtain agency files "containing information submitted by corporations and individuals who thought the information would be held in confidence." Chrysler Corp. v. Brown, 99 S. Ct. 1705, 1709 (1979). Because a person may obtain such information without any demonstration of need or interest, see Wearly v. Federal Trade Commission, 1978-2 Trade Cas. ¶ 62,358 at 76,149 (D.N.J., Oct. 18, 1978), a litigant may easily evade the requirement of showing necessity and relevance under the Federal Rules of Civil Procedure to acquire sensitive data that is neither necessary nor relevant to his case. Furthermore, even if the information is necessary and relevant, the FOIA permits the litigant to obtain discovery without the constraint of a protective order.

Although the FOIA recognizes the policy against disclosure of trade secrets and other confidential commercial information, see FOIA § 4, 5 U.S.C. § 552(b)(4), it does not require an administrative agency to withhold such information. Chrysler Corp. v. Brown, 99 S. Ct. 1705 (1979). Indeed, the FOIA mandates administrative procedures that are inherently biased in favor of disclosure. Patten & Weinstein, Disclosure of Business Secrets Under the Freedom of Information Act: Suggested Limitations, 29

Ad. Law Rev. 193, 203 (1977); see, e.g., 5 U.S.C. §§ 552(a)(4)(B) (agency bears burden of justifying nondisclosure), (E) (agency may be liable for costs and attorney fees for improper nondisclosure). Furthermore, because the administrative agency will usually have no real interest in nondisclosure, it has little reason to protect the trade secret holder's interests. Patten & Weinstein, supra, at 202-03. As one pair of commentators has observed:

> Biasing the decisionmaker in favor of disclosure, where there is neither the incentive, knowledge nor time needed to determine whether secrecy is truly justified, practically insures that business data will not receive any degree of protection at the administrative level.

Id. at 203.

Adequate and enforceable safeguards against unauthorized disclosure are therefore essential before an administrative agency may compel a party to disgorge trade secrets or other confidential commercial information. Failure to provide advance assurances against improper disclosure destroys the qualified privilege against discovery by permitting litigants easy access to material to which they would not otherwise be entitled, at least without an adequate protective order. If the qualified privilege against discovery of trade secrets and other confidential commercial information is to mean anything, advance assurances against unauthorized disclosure are vital.

CONCLUSION

For the foregoing reasons, this court should affirm the lower court's decision that a party need not disclose trade secrets or other confidential commercial information to the Federal Trade Commission without prior assurance against improper disclosure.

Respectfully submitted,

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Attorneys for Amicus Curiae
Wards Cove Packing Company, Inc.

ADDENDUM

5 U.S.C. § 552(a)(4)(B):

> On complaint, the district court of the United States in the district in which the complainant resides, or has his principal place of business, or in which the agency records are situated, or in the District of Columbia, has jurisdiction to enjoin the agency from withholding agency records and to order the production of any agency records improperly withheld from the complainant. In such a case the court shall determine the matter de novo, and may examine the contents of such agency records in camera to determine whether such records or any part thereof shall be withheld under any of the exemptions set forth in subsection (b) of this section, and the burden is on the agency to sustain its action.

5 U.S.C. § 552(a)(4)(E):

> The court may assess against the United States reasonable attorney fees and other litigation costs reasonably incurred in any case under this section in which the complainant has substantially prevailed.

5 U.S.C. § 552(b)(4):

> This section does not apply to matters that are—
>
> . . .
>
> (4) trade secrets and commercial or financial information obtained from a person and privileged or confidential; . . . .

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ALEC W. BRINDLE
PARTNER ON LEAVE

December 15, 1978

Federal Trade Commission
2840 Federal Building
915 Second Ave.
Seattle, Wa. 98174

Re: FTC File No. 751 0024

Gentlemen:

We are counsel for Wards Cove Packing Company, Columbia Wards Fisheries and Bumble Bee Seafoods division of Castle & Cooke, Inc. in pending litigation, MDL 249 Western District of Washington. The case involves claims by Bristol Bay fishermen against our clients regarding the antitrust laws.

During the course of recent discovery in this litigation it was revealed by counsel for plaintiffs that they had obtained copies of profit and loss statements and other financial data together with approximately three thousand documents from the Federal Trade Commission under the Freedom of Information Act. All these documents are records of our above named clients produced during the 1975 investigation. When the Federal Trade Commission commenced its investigation of our clients certain documents were produced under subpoena with the expressed understanding that they would not be further revealed.

In our opinion this financial information involves highly sensitive data which should not have been available to any third party. It is now being made available not only to the fishermen from whom these companies must buy the raw fish for processing but also to their competitors.

Federal Trade Commission
December 1[illegible], 1978
Page two.

We demand an explanation as to why this confidential data was made available. Further we would like to know why we were not given notice prior to its release.

Very truly yours,

Douglas M. Fryer

DMF/eb
cc: Wards Cove Packing Co.
J. Gilbert

FEDERAL TRADE COMMISSION

Seattle Regional Office
2840 Federal Building
915 Second Avenue
Seattle, Washington 98174
(206) 442-4655

RECEIVED
DEC 20 1978
Moriarty, Mikkelborg, Broz, Wells & Fryer

December 19, 1978

Douglas Fryer
Moriarty, Mikkelborg, Broz,
Wells & Fryer
3300 Seattle-First National Bank Bldg.
Seattle, WA 98154

Re: FTC File No. 751 0024
Your letter of December 15, 1978
CN #1475-78

Dear Mr. Fryer:

When this office completed its investigation of the salmon industry all investigational files were forwarded to our headquarters office. At that time we made a preliminary segregation of the investigational files pursuant to the requirements of the Freedom of Information Act. Although I did not personally handle the segregation of your clients' files, to the best of my recollection a substantial portion of the documents and transcripts in the investigation were considered to fall within exempt (confidential) categories. Prior to forwarding the files to headquarters, no documents were publicly released.

Subsequent to staff segregation of closed investigational files, the receipt of a Freedom of Information Act request will cause our FOIA Office to review the staff's segregation and release such documents as do not appear to fall within exempt categories. One factor the FOIA Office will consider is the age of the document. For example, individual sales invoices which might be deemed confidential when current are generally deemed no longer exempt from disclosure after several years have passed. Other documents may retain their exempt status for considerably longer. Presumably any documents released by the Commission were found not to fall within applicable standards for confidentiality under FOIA.

To the best of my recollection, normal Commission procedure for confidentiality of documents was maintained during and after the investigation, subject only to the statutory mandate of the Freedom of Information Act. If your clients wished to insure notice of disclosure (particularly after the documents were out of the Seattle Office), the proper procedure would have been to seek a

prior notice agreement from the Commission. Commission Rules prohibit the staff from entering into such agreements. This could have been done at any time during or after the close of the investigation. Any Commission order would have gone to the FOIA Office or any other office in possession of the documents. I am not aware of any such request having been filed in the investigation.

If you wish any further information regarding release of the documents, you may write to the Freedom of Information Office of the Federal Trade Commission in Washington, D.C. If you do so, please inform them of our prior correspondence regarding this matter.

Yours truly,

Randall H. Brook
Attorney

FEDERAL TRADE COMMISSION
WASHINGTON, D. C. 20580

OFFICE OF THE SECRETARY

17 JAN 1979

Douglas M. Fryer, Esquire
Moriarty, Mikkelborg, Broz,
Wells and Fryer
3300 Seattle First National
Bank Building
Seattle, Washington 98154

Re: Freedom of Information Act Request
Salmon Industry
File Number 751-0024

Dear Mr. Fryer:

This is in response to your letter of December 29, 1978 requesting information on the above-captioned files.

You are granted partial access to the material requested, even though you are seeking material which was released previously. Due to clerical error some material which is exempt from mandatory disclosure pursuant to 5 U.S.C. Section 552:

(b)(3) specifically exempted from disclosure by statute;

(b)(4) trade secrets and commercial or financial information obtained from a person and privileged or confidential;

(b)(5) inter-agency or intra-agency memorandums or letters which would not be available by law to a party other than an agency in litigation with the agency,

was released. This error has been corrected and the eleven pages have had the appropriate deletions made in order to prevent any future release of this material.

You may petition the Commission for access to the material which is being withheld within thirty days from the date all the accessible material is made available to you. You may petition either because you believe that the material is not exempt under the law, or because you believe that the Commission should exercise its discretion and release the information notwithstanding its exempt status. If requesting discretionary release, you

should state your interest in the subject matter and the purpose for which it would be used if access is granted. Please include a copy of your original letter and this response with your appeal. The request should be addressed Freedom of Information Act Appeal, Office of the General Counsel, Sixth Street and Pennsylvania Avenue, N.W., Washington, D.C. 20580.

The accessible files in the investigation will be forwarded to the Seattle office of the Federal Trade Commission. You may inspect the documents by contacting Ivan C. Orton, Esquire, of this office, at the 28th Floor, Federal Office Building, 2840 Second Avenue, Seattle, Washington 98174, (206) 442-4655. Copies of these documents will be made available to you, if you so desire, at a fee equivalent to the cost of duplication.

The undersigned is deemed the sole official responsible for the denial of any portion of your request.

Sincerely,

Carol M. Thomas
Secretary

LAW OFFICES
MORIARTY, MIKKELBORG, BROZ, WELLS & FRYER
3300 SEATTLE-FIRST NATIONAL BANK BUILDING
SEATTLE, WASHINGTON 98154
(206) 623-5890

CHARLES P. MORIARTY, JR.
JACOB A. MIKKELBORG
RICHARD F. BROZ
ROBERT D. WELLS, JR.
DOUGLAS W. FRYER
R. THOMAS OLSON
ROBERT J. WALERIUS

CHARLES E. YATES
DOUGLAS W. DUNCAN
PAMELA A. OHANO
ALEXANDER W. WIRT

ALEC W. BRINDLE
PARTNER ON LEAVE

January 24, 1979

Ms. Carol M. Thomas
Secretary
Federal Trade Commission
Washington, D.C. 20580

Re: Freedom of Information Act
Request-Salmon Industry
File: 751-0024

Dear Ms. Thomas:

Reference is made to your letter of January 17, 1979, regarding the above.

We hereby request that all documents obtained from Wards Cove Packing Company, Inc., Bumble Bee Seafoods Division of Castle & Cooke, Inc. and Columbia Wards Fisheries in connection with FTC investigation No. 751-0024 be returned. The investigation has, as we understand it, been closed and return would avoid any further "clerical errors" by which confidential information was released. We wish you to know that this information was very confidential and has now been made available to several of my clients' competitors.

Alternatively, we request that we be given a list of those documents which were released. If this is not possible we request that we at least be allowed to review the materials. Since the materials belong to our clients, and since some of the information was released due to your error we do not believe any fee is appropriate.

We request the foregoing since the release of the confidential financial and other data has been made to our competitors and also because it is in the possession

of attorneys for plaintiffs in a civil antitrust case in which our clients are defendants.

We also request copies of all correspondence dealing with your release of the materials.

Very truly yours,

Douglas M. Fryer

DMF/eb
cc: I.C. Orton
A. Brindle
enclosure

FEDERAL TRADE COMMISSION

Seattle Regional Office
28th Floor Federal Building
915 Second Avenue
Seattle, Washington 98174
(206) 442-4655

RECEIVED
FEB 7 1979
Moriarty, Mikkelborg, Broz, Wells & Fryer

February 6, 1979

Douglas M. Fryer
Moriarty, Mikkelborg, Broz,
Wells & Fryer
3300 Seattle First National Bank Bldg.
Seattle, Washington 98154

Re: FOIA Request
Salmon Industry

Dear Mr. Fryer:

As indicated in Mr. Thomas' letter to you of February 1, 1979, the Seattle office is responding to your request that all documents submitted by Castle & Cooke, Inc. be returned.

It is my understanding, from talking with the Office of the Secretary, that it is Commission policy to not return documents unless agreements to that effect were reached prior to the documents being turned over. Therefore, your request is denied.

Sincerely,

Ivan Orton

Ivan Orton
Attorney

FEDERAL TRADE COMMISSION
WASHINGTON, D. C. 20580

ICE OF THE SECRETARY

RECEIVED 1 FEB 1979
FEB 5 1979
Moriarty, Mikkelborg, Broz, Wells & Fryer

Douglas M. Fryer, Esquire
Moriarty, Mikkelborg, Broz,
Wells, & Fryer
3300 Seattle-Frist National
Bank Building
Seattle, Washington 98154

Re: Freedom of Information Act Request
Salmon Industry
File Number 751-0024

Dear Mr. Fryer:

This is in response to your letter of January 24, 1979 requesting information on the above.

For that portion of your letter which requests you be provided with a copy of the information which was erroneously released in response to a previous Freedom of Information Act Request, your request is granted. This is being released to you as counsel for Castle & Cooke, Inc., and will not be released to any other party. The enclosed document is the only information supplied by your client which was mistakenly released. This is being provided to you without charge.

The Freedom of Information Branch has been in contact with the Commission's Seattle Regional Office to discuss that portion of your request that all documents submitted by Castle & Cooke, Inc., be returned. This office will not be addressing itself to that portion of your request. The Seattle Regional Office will be responding to this matter.

Sincerely,

Carol M. Thomas
Secretary

Enclosure

W.L. WEARLY, Ingersoll-Rand Company, The Torrington Company, Plaintiffs,

v.

FEDERAL TRADE COMMISSION, Michael Pertschuk, Chairman, Calvin J. Collier, David A. Clanton, M. Elizabeth Hanford Dole, Paul Rand Dixon, Defendants.

Civ. No. 77-1860.

United States District Court, D. New Jersey.

October 18, 1978.

Christiansen, Jube & Keegan by Sam Radin, Newark, N.J., for plaintiffs Ingersoll-Rand Co. and The Torrington Co.; Burns, Van Kirk, Greene & Kafer, New York City, by Joseph W. Burns, New York City, of counsel.

Carpenter, Bennett & Morrissey, Newark, N.J., for plaintiff W.L. Wearly by David M. McCann, Newark, N.J.; Morgan, Lewis & Bockius, Washington, D.C., by Miles W. Kirkpatrick, Washington, D.C., of counsel.

Robert J. Del Tufo, U.S. Atty. by Donald J. Volkert, Jr., Asst. U.S. Atty., Newark, N.J. for defendants; Mark W. Haase, Sp. Atty., Washington, D.C., Arthur W. Adelberg, Washington, D.C., of counsel.

OPINION

BIUNNO, District Judge.

This litigation grows out of an administrative subpoena issued to Wearly, who is chairman of Ingersoll-Rand (I-R), which in turn owns all the stock of its subsidiary, Torrington. The subpoena was issued in connection with a

non-public investigation designed to look into the question of antitrust aspects of activities or arrangements conducted through joint ventures, stock acquisitons, and the like. The specific subject matter deals with "needle roller bearings" (NRB) and "loose needle rollers" (LNR).

As everyone knows, there are many kinds of bearings for axles and shafts. The earliest form is the common journal, going back to the wheelbarrow and the wagon. The wheel is of immense value for the physical reason that rolling friction is much lower than sliding friction under most conditons, and since friction causes waste of energy, its reduction increases the efficiency of machines to do useful work.

Even with the development of Babbitt metal for journals, however, sliding friction remained between the shaft and the simple journals. The first important improvement, growing out of technological advances in metallurgy, was the ballbearing. Set between two "races" of hardened steel, the smooth, round and hard steel balls made it possible to substitute rolling friction between shaft and journal.

It will be recalled that at the start of World War II, the nation's railroads had just begun the process of replacing the simple journal box on frieght cars with roller bearings, to eliminate breakdowns from "hot boxes" and sharply reduce maintenance.

After the ball bearing, there came roller bearings, tapered and double tapered roller bearings, thrust bearings, and eventually the needle roller bearing. Each of these forms of bearing are variations of the basic concept of substituting rolling friction for sliding friction. Each form is designed to deal with the wide range of loads and stresses encountered in all kind of machines that have rotating axles or shafts. The list of applications is no

doubt enormous, ranging from the bicycle, through the many devices with shafts in automobiles, refrigerators, washing machines, oil burners, attic fans, and other appliances, through manufacturing equipment such as turret latches and milling machines, to sophisticated gyroscopes for space craft with rotational speeds of 10,000 r.p.m. or more.[1]

The defendants, who are the Federal Trade Commission and its members, issued the subpoena involved not to I-R or Torrington, but to Mr. Wearly, chairman of I-R. Since the non-public investigation is directed to corporate activity, the reason for addressing Mr. Wearly is obscure. Various responses at the hearings suggest that the reason is "strategic", whatever that may mean, but the only difference the court has been able to discern is that an individual who is subpoenaed and who resists the command after a judicial enforcement order is subject to the peril or jeopardy of imprisonment, which the corporation is not. Thus, the use of an individual subpoena is particularly strange in a case like this, where the subpoena is "duces tecum", and the main object is to obtain specified categories of documents, and where the agency has made clear that it will accept the documents by mail along with a verifying affidavit, as compliance with the subpoena without the personal appearance of the *w*itness being required. This practice for no*n*-public investigations is es-

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1 This kind of history, background and descriptive information is the subject of judicial notice under F. Ev. Rule 201, by reference to commonly available sources of information whose reliability is not open to question. One reference is the article on BEARINGS, Antifriction, in Vol. 3, Encyclopedia Americana (1957 ed). The volume WHEELS (Life Science Library, 1967) observes at p.12 that the earliest known record of a vehicular wheel is a sketch made by an accountant (!) in Sumer about 3500 B.C. A sketch on p.14 details a primitive roller bearing made of an oak hub, wooden rollers and axle, found in Denmark along with other parts of a 1st Century B.C. funeral wagon.

sentially the same as the Grand Jury subpoena for corporate records. Such subpoenas are routinely satisfied through arrangements with the U.S. Attorney to turn over to him the requested documents without any witness appearing before the Grand Jury.[2]

After the subpoena was issued and served, conferences followed. Such conferences are also commonplace and routine. Their object is to arrive at a clearer and sharper definition of the classes of documents called for. It is fairly usual for the supoena duces tecum to have attached a list of categories of documents on a "boiler plate" format, that either does not match the particular records of the enterprise, or else calls for types of documents of such massive bulk and number as to be essentially useless to the agency and unreasonably burdensome on the supplier.

For most categories, these matters were resolved by negotiations, and as to those the court understands that the documents have been supplied.

The controversy here involves a number of categories of documents which, for lack of a better term, the court has chosen to describe as documents containing "proprietary information". This information includes not only trade secrets, secret processes and secret devices, but also a great mass of management data, evaluations, plans, production and production results of a kind that traditionally and historically is never disclosed outside the company, except on protected and privileged conditions usually established by contract, nor even within the company ex-

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2 A very good narrative account of the common practices followed in gathering documents by subpoena duces tecum for Grand Jury purposes is found in *Hawthorne* v. *Director of Internal Revenue*, 406 F. Supp. 1098 (D-Pa., 1976). In that report, Judge Edward R. Becker sets out the description (essentially the same as in this District), at pp. 1105-1107

cept to those persons who have a "need to know" the information in order to execute their functions.[3]

In respect to these, an irresolvable impasse was reached. The position of plaintiffs was basically two-fold: one claim was that the request was unreasonable, excessive and beyond authority; the other was that defendants were either unable or unwilling to provide adequate security protection if the data were disclosed, or, if they did, that such arrangements could not be relied on.

The controversy is real, and it is specific. It is plaintiffs' position that this proprietary information is absolutely vital and essential to its ability successfully to compete in the marketplace with all competitors, domestic and foreign, the largest worldwide competitor probably being SKF of Sweden. They assert that this is the kind of information which, in the shrouded world of industrial espionage, is precisely the kind that competitors would give their eye teeth for. If they must give it to FTC for the purposes of the non-public investigation, they will do so with the utmost reluctance and with their "heels dug in". But, even then, they are unwilling to provide it unless effective means are provided to assure that the integrity and safety of the information will be fully protected against disclosure to competitors, either directly or by

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3 The property right, of course, is in the information set out by the documents. To retain its quality as property, the information must be kept "secret", as discussed later. Distinguish this characteristic from a copyright or a patent, where the information must be made public in order to obtain the different kind of property interest which resides in them.

For a useful decision distinguishing between pieces of paper and the information written on them, see *Booth* v. *City of New York*, 268 App. Div. 502, 52 N.Y.S.2d 135 (1944). That case involved the professional services of official court reporters and the typed transcripts of proceedings they prepare, in the context of a sales tax law.

public dissemination. It is on this aspect that the controversy mainly centers.[4]

Proprietary information, of course, is but one form of intangible personalty, in the same general category as stocks, bonds, mortgages, copyrights, letters patent, and the like. The major characteristic that distinguishes proprietary information from such other forms is that while the disclosure of A's ownership of a particular security in no way affects his ownership thereof or his rights therein, the disclosure of the tenor and content of proprietary information destroys its value as well as the property interest in it. The value resides not in the pieces of paper on which the information is recorded, but in the information itself. Once that information becomes public, the property aspect is gone.

The law in regard to proprietary information, although well known and generally recognized, seems not to have been treated in any comprehensive way, and the decisions reflect indirect aspects depending on the context in which

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4 If the agency were in a position to "use" the information to engage in the manufacture and sale of NRBs or LNRs in competition, as in a governmental manufacturing arsenal for military equipment, it might be argued that the subpoena would amount to a "taking" for public use, for which just compensation would be required. That is not this case.

Rather, as the court understands the issue, the agency wants to examine the information in its non-public investigation in order to consider whether anti-trust laws have been violated. This does not amount to putting the information to "use". For that purpose, a "taking" is avoided by making certain that the information is not disclosed to competitors or to the public, whether under the FOIA or otherwise, since such disclosure would destroy the property interest and would amount to a "taking" for private use.

Plaintiffs' point, then, amounts to saying that just as they would not agree to disclose the information to a licensee without suitable provisions to assure integrity and safety, they are entitled to equivalent protection before turning it over to the agency. The same would be true of confidential disclosures to an investment banker to support a private loan, or to an interested buyer of the Torrington operation, under conditions to protect and return the proprietary information if the transaction is not consummated.

disputes happen to arise. In part, this may be due to the awareness of owners of proprietary information to adopt and follow careful practices to prevent disclosures.

Some decisions arise out of the conduct of a former employee who attempts to use the proprietary information for the benefit of himself and a competitor. Others involve conduct by competitors who manage to obtain the information by unequitable, unfair, or improper means. Decisions of these kinds are generally equity cases where, if the showing for relief be made, the traditional remedy is that of injunction. This is for the obvious reason that money damages are usually incapable of ascertainment, and so the damage is "irreparable" in that form.[5]

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5 New Jersey has long recognized and given protection to trade secrets, both by way of injunction and damages. *Salomon* v. *Hertz*, 40 N.J.Eq. 400, 2 A. 379 (Ch. 1885); *Stone* v. *Grasselli Chem. Co.*, 65 N.J.Eq. 756, 55 A. 736 (E & A 1903) (which is evidently the first ruling by the highest court, and which reviews the state of the law throughout the country), *Sun Dial* v. *Rideout*, 16 N.J. 252, 108 A.2d 442 (1954); *Adolph Gottscho, Inc.* v. *Amer. Marking*, 35 N.J.Super. 333, 114 A.2d 19 (Ch. 1954), *aff'd*, 18 N.J. 467, 114 A.2d 438 (1955), damage award modified, 26 N.J. 229, 139 A.2d 281 (1958); cover the bulk of the span, with many other cases between.

In general, injunction to restrain employee disclosure is grounded primarily on the property concept; but relief has been given where some trust relation is violated, even though the plaintiff had pirated the trade secret from another, *Vulcan, etc.* v. *American Can*, 67 N.J.Eq. 243, 58 A. 290 (Ch. 1894); 70 N.J. 588, 62 A. 881 (Ch. 1905), *rev'd*, 72 N.J.Eq. 387, 67 A. 339 (E & A 1906).

Sometimes the issue arises in connection with a covenant not to compete, as in *Whitmyer Bros., Inc.* v. *Doyle*, 58 N.J. 25, 274 A.2d 577 (1971), which recognizes that "the employer has a patently legitimate interest in protecting his trade secrets as well as his confidential business information and he has an equally legitimate interest in protecting his customer relationships."

Another kind of intangible property protected by New Jersey law is categorized as "literary property". A recent example of this protection is found in *Krahmer* v. *Luing*, 127 N.J.Super. 270, 317 A.2d 96 (Ch. 1974), in which a contractor made use of house plans for one house, to build another, and was sued by the architect for pirating his work. Construction of the first house was held not to be such a general publication as would justify copying the plans, since the building was the result of the plans, not a copy of them.

A few cases deal with the question whether a secret process is "property" within the meaning of corporation laws requiring that capital stock of a corporation must be paid for in money or "property". See, e.g., *Durand* v. *Brown*, 236 F. 609 (CA-6, 1916). For a comprehensive discussion of the same question involving the issuance of stock in exchange for patents, a closely related question, see *Atlas Trailers, etc.* v. *McCallum*, 118 Tex. 173, 12 S.W.2d 957 (1929).

In practical experience, the question arises most frequently, and quite frequently, in the context of the law of evidence. The "trade secret" privilege is well-established at common law and is regularly applied in the federal courts. However, the matter arises at the trial level, as an evidence issue collateral to almost any kind of case, and is routinely dealt with at that level with relatively little recording in the reports.

There can be no real doubt that the trade secret privilege, as a rule of evidence, is grounded on the property nature of the trade secret and that it recognizes the fact that disclosure of the tenor and content destroys both the value and the property. In balancing the eed for evidence against the property right, the well-recognized concept is that the privilege is a qualified one in the sense that disclosure will be required (so that the evidence may be available) but under the control of a protective order (to the end that the proeprty not be "taken").[6]

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6 Since I-R (the target of the inquiry) is a New Jersey corporation and owns all the stock of Torrington, the situs of this class of intangible personalty is doubtless located here under the usual rule and is governed by New Jersey property law. The only other State whose law might apply is Connecticut, where Torrington is based. Connecticut is one of the original states and also a common law state. Its law is usually the same as New Jersey's. Any difference in law has not been briefed or researched. In any event, Mr. Wearly's domicile is irrelevant as he is merely an officer and has no ownership interest in the proprietary

See, for example, F.R.Civ.P. 26(c), for one formulation. The sense of this rule is so well understood, and so regularly applied, that competent counsel have no difficulty, in most cases, in preparing a suitable protective order for entry by consent.

When it adopted the Federal Rules of Evidence, by Pub.L. 93-595, 88 Stat. 1926, the Congress was wholly unable to come to agreement on any of the proposed privilege rules. In the rules prescribed by the Supreme Court on November 20, 1972, there were specific privilege rules, among which was Rule 508 dealing with trade secrets. The tenor of that rule follows the recognized characteristics without noticeable change. The key sentence said:

> "When disclosure is directed, the judge shall take such protective measure as the interests of the holder of the privilege and of the parties and the furtherance of justice may require."

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information, although he is obliged, as an agent entrusted with it, to see to its protection, and is the witness subpoenaed.

The earliest case discussing the subject in New Jersey appears to be *Salomon* v. *Hertz*, 40 N.J.Eq. 400, 2 A. 379 (Ch. 1885). That case was referred to *Stone* v. *Grasselli Chem. Co.*, 65 N.J.Eq. 756, 55 A. 736 (E & A 1903), which was followed in *Taylor, etc.* v. *Nichols*, 73 N.J.Eq. 684, 69 A. 186 (E & A 1908). *Taylor* is mentioned in *Herold* v. *Herold China, etc.*, 257 F. 911 (CA-6, 1919) for the proposition that the practice of making disclosures of trade secrets in camera and under seal "is well established." Of other New Jersey cases, two more worth reading are *Paper, etc.* v. *Newlin*, 101 N.J.Eq. 115, 137 A. 314 (Ch. 1927) and *Sun Dial Corp.* v. *Rideout*, 17 N.J. 517, 111 A.2d 881 (1955). *Sun Dial* is especially of interest as it recognizes that while an injunction is ordinarily required to specify what is prohibited, this cannot be done when the restraint is against use or disclosure of trade secrets, for such an injunction would be a public record and would itself destroy the property. Instead, the practice is endorsed of recording the details in a transcript made in camera and held under seal, as the ancient practice evidently was.

More recently, and not in a trade secret context, the New Jersey court has approved and encouraged the use of protective orders as a basis for securing testimonial responses. See *Mahne* v. *Mahne*, 66 N.J. 53, at 62, 328 A.2d 225 (1974); *Gero* v. *Cutter*, 66 N.J. 443, at 446, 332 A.2d 593 (1975) and *Cashen* v. *Spann*, 66 N.J. 541, at 545, 334 A.2d 8 (1975).

The House and Senate and Conference Committee reports disclose that this rule did not give rise to any problem. Rather, sharply differing views in regard to the inclusion of a newsperson's "shield" law, and the scope of the privileges for "Secret of State" and "Official Information" were not capable of resolution, and instead of adopting any specific privilege rules, the Congress enacted a general rule, Fed. Ev. Rule 501, which calls for application of "the principles of the common law as they may be interpreted by the courts of the United States in the light of reason and experience".

For the purposes of the present controversy, the court is satisfied, and finds, that the formulation of proposed Rule 508 adequately reflects the principles of the common law in the sense required by Fed. Ev. Rule 501.

The enactment of evidence rules by the Congress was the federal culmination of an effort first reflected by the adoption of the Model Code of Evidence by the American Law Institute in 1942. That formulation was the result of a prolonged study, for which Edmund M. Morgan was Reporter, John M. Maguire was Assistant Reporter, and John H. Wigmore was Chief Consultant. In turn, the Model Code was followed by the Uniform Rules of Evidence drafted by a committee of the National Conference of Commissioners on Uniform Laws, approved in 1953 by the Conference and by the House of Delegates of the American Bar Association, as well as by the American Law Institute the following year.

The Uniform Rules draft formed the basis for a report of May 25, 1955 by a committee of the Supreme Court of New Jersey, headed by Mr. Justice Nathan L. Jacobs and which included other distinguished members such as the late Mr. Chief Justice Joseph Weintraub, former Mr. Justice Frederick W. Hall, former Superior Court Judge Al-

fred C. Clapp, and Professor Lewis Tyree. With various modifications, that committee proposed adoption of the Uniform Rules for New Jersey.

For reasons arising under the New Jersey Constitution, 1947 which need not be detailed here, the New Jersey Legislature established a Commission on the subject by JR-15, 1955, headed by the late Superior Court Judge John O. Bigelow. The report of that Commission, dated November, 1956, concluded that the rules be adopted by statute, rather than by the court. In 1960, the issue was resolved by enactment of The Evidence Act, 1960, NJPL 1960, ch. 52. That law enacted the rules on definitions (N.J.S. 2A:84A-1 through 15), a section on Scope of the Rules (N.J.S. 2A:84A-16), and the rules on privilege (N.J.S. 2A:84A-17 to 32). For the balance of the rules, a mechanism was established, modelled on 28 U.S.C. § 2072, for promulgation by the Supreme Court of New Jersey and filing with the Legislature and Governor, who could act by joint resolution. The remaining rules took effect September 11, 1967 as promulgated by the Supreme Court and pursuant to JR-5, 1967.[7]

The significance of this brief history in respect to the present controversy is two-fold. One, the New Jersey Legislature regarded rules of privilege to be so infused with policy considerations wholly independent of the judicial process of adducing evidence that it undertoook to enact the privilege rules itself. Two, in establishing the scope of the rules, it directed that:

> "Rule 2(1). The provisions of Article II (Chapter V of the Rules), Privileges, shall apply in all cases and to

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7 While Congress undertook to enact all the federal Rules of Evidence, instead of only the definitions, scope and privilege rules (as New Jersey did), it took the same course as New Jersey by enacting a statutory mechanism through which the Supreme Court may initiate changes in the rules. See 28 U.S.C. § 2076 (1975).

> all proceedings, places and inquiries, whether formal, informal, public or private, as well as to all branches of government and by whomsoever the same may be conducted, and none of said provisions shall be subject to being relaxed." N.J.S. 2A:84A-16.

This scope rule, which derived from the Report of the Bigelow Commission, made the privilege rules applicable everywhere, including any kind of proceeding before administrative agencies. As noted in the Comment to Rule 2 in that Report:

> " * * * The Rules governing privileges, however, apply in all cases and all proceedings".

The rationale for this view is obvious: if a communication or other kind of information is to be privileged from disclosure for some policy reason unrelated to the taking of evidence, it should be privileged everywhere, not merely in court proceedings. Long established rules of privilege, such as the attorney-client privilege, the marital privilege, or the trade secret privilege, would be meaningless if protected in a lawsuit before a court, but required to be disclosed in a proceeding before a zoning board of adjustment or any other administrative agency.

While the Congress took the same view as did the New Jersey Legislature in respect to the source of authority to adopt rules of evidence, regarding them as substantive rather than procedural (See H.R. 93-650; S.R. 93-1277), its own scope rule, Fed. Ev. Rule 1101, made the enactment applicable to courts but failed to deal with administrative agencies.

Despite this,it is clear that recognized privileges protecting against disclosure must be aplied everywhere if they are to have meaning. When a client communicates

with his attorney, he cannot possibly forecast the setting in which he or his attorney may be asked to disclose the communication. The purpose of that privilege is to assure the availability of counsel's advice, the soundness of which depends on full disclosure to counsel. Confidence is essential to the relation. The privilege cannot be made to depend on whether the question is asked in court, or by an administrative agency, or by a Congressional committee.

This is even more emphatically true of the trade secret privilege, grounded as it is on the property interest in the content of the information. Here, constitutional considerations are involved. The sovereign power of eminent domain to take property is inherent in sovereignty. But by Amendment 5 of the Constitution, it may be exercised for public use only upon just compensation. It may not be exercised for private use at all.[8]

Thus, it is plain that any failure to recognize and honor the privilege, and to furnish full and adequate protection against the kind of disclosure that would destroy the property interest in applying the balancing test in instances when restricted disclosure is called for in order to conduct a proceeding, would involve constitutional problems of considerable magnitude. This is for the reason that disclosure is required by act of the government, acting through any of its branches. Amendment 5 applies to all the branches, and all agencies and officers of government.

In some cases, no doubt, the need for the information is lacking in sufficient importance to warrant that the trade

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8 Whether the use for which property is taken is a public use is for courts to determine, *Shoemaker* v. *U.S.*, 147 U.S. 282, 13 S.Ct. 361, 37 L.Ed. 170 (1893); *State by McLean* v. *Lanza*, 48 N.J.Super. 362, 137 A.2d 622 (Law, 1957), *aff'd*, 27 N.J. 516, 143 A.2d 571 (1958), appeal dismissed, 358 U.S. 333, 79 S.Ct. 351, 3 L.Ed. 2d 350, rehearing den. 359 U.S. 932, 79 S.Ct. 606, 3 L.Ed. 2d 634; *State* v. *Totowa, etc. Co.*, 96 N.J.Super. 115, 232 A.2d 655 (App. 1967).

secret be disclosed at all. In those cases, the matter involved can be resolved fairly and adequately without disclosure. In other cases, whatever is involved cannot reasonably be resolved without disclosure; in those cases, the requirement to disclose is justified by strictly limiting dissemination of the information. This serves the needs of the proceedings and protects the property interest. It amounts to a disclosure under conditions that are themselves privileged.

The concept is well recognized. A good illustration is found in N.J. Ev. Rule 37 (N.J.S. 2A:84A-29), dealing with waiver of a privilege. The second paragraph reads:

> "A disclosure which is itself privileged or otherwise protected by the common law, statutes or rules of court of this State, or by lawful contract, shall not constitute a waiver under this section." [9]

Thus, the owner of a trade secret who discloses it in confidence to his attorney does not waive his trade secret privilege because the disclosure is itself a privileged communication.

So also, the highly confidential data about plant efficiency, production plans, estimates of customer needs, and the like, are commonly disclosed to banks and other financial institutions so that they may pass on loan programs, but only under express or implied obligations not to disclose the information. The owner of a trade secret or secret process may license another to use it, but, if well advised, will require covenants against disclosure.

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9 The principle was recognized in the last sentence of Fed. Ev. Rule 511 (not expressly enacted), and the court finds it to be embraced by Fed. Ev. Rule 501. And see, *Gannet* v. *First Nat'l, etc.*, 410 F. Supp. 585, at 589-590 (D.N.J., 1976); rev'd on another issue, sub nom. *U.S.* v. *First Nat'l, etc.*, 540 F.2d 619 (CA-3, 1976), aff'd on another issue, 546 F.2d 1072 (CA-3, 1976).

This characteristic of making disclosure of proprietary information under privileged conditions arising out of contract has been recognized by the Supreme Court. In *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470, 94 S.Ct. 1879, 40 L.Ed.2d 315 (1974), the Chief Justice said:

> "This necessary element of secrecy is not lost, however, if the holder of the trade secret reveals the trade secret to another 'in confidence, and under an implied obligation not to use or disclose it.' * * * These others may include those of the holder's 'employees to whom it is necessary to confide it, in order to apply it to the uses for which it is intended.' * * Often the recipient of confidential knowledge of the subject of a trade secret is a licensee of its holder. * * * The protection accorded the trade secret holder is against the disclosure or unauthorized use of the trade secret by those to whom the secret has been confided under the express or implied restriction of nondisclosure or nonuse. The law also protects the holder of a trade secret against disclosure or use where the knowledge is gained, not by the owner's volition, but by some 'improper means', Restatement of Torts, § 757(a), which may include theft, wiretapping, or even aerial reconnaisance. A trade secret law, however, does not offer protection against discovery by fair and honest means, such as by independent invention, accidental disclosure, or by so-called reverse engineering, that is by starting with the known product and working backward to divine the process which aided in its development or manufacture." 416 U.S., at 475-476, 94 S.Ct., at 1883 (citations and footnotes omitted).

The court sees no reason why these fundamental principles, which are hornbook law, should not be applied when

the disclosure is not voluntary, but is by compulsion of a subpoena issued by any branch of government, and usually enforced by the judiciary.[10]

Failure to provide adequate protection to assure confidentiality, when disclosure is compelled by the government, amounts to an unconstitutional "taking" of property by destroying it, or by exposing it to the risk of destruction by public disclosure or by disclosure to competitors. The constitutional limitation cannot be altered by any branch of government.

The concept of protection for mandatory disclosure of privileged matter finds expression in other laws. Thus, the constitutional right not to be compelled to testify when the testimony may tend to incriminate the witness, has also been made the subject of a balancing test. Under 18 U.S.C. § 6001, et seq. if the government is of the view that it is more important to have the testimony of a witness than it is to prosecute him for what that testimony may reveal, directly or indirectly, it may decide to give up any right to prosecute on the basis of the testimony or information sought from the witness, and obtain a court

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10 The point to be kept in mind here is that the subject of the dispute is *property*, not evidence or subpoenas. The latter merely provide the context in which the dispute arises.

Thus, in bank robbery cases where the culprit is caught with the loot, the stolen money, including "bait bills," is seized by the government as contraband (so far as the robber is concerned) and as evidence. Once the trial is completed, and any appeal of a conviction concluded by affirmance, *the money is returned to the bank*. It is not kept by the government or given away.

In a recent unreported case in this district, a defendant charged with 3 bank robberies pleaded guilty to one charge in exchange for an agreement under Rule 11, F.R.Crim.P. to dismiss the other two charges. After sentence, he sued the United States to recover money taken from him on his arrest. To resist the claim, the United States only needed to show that the money had been stolen from one of the banks even though the charge as to that bank had been dismissed under the Rule 11 agreement. See, also, *Ruth* v. *First Nat'l Bank etc.*, 410 F. Supp. 1233 (D-N.J. 1976) for an even better example of "chutzpa".

order directing the witness to testify notwithstanding the right not to self-incriminate.

Similarly, under the Jencks Act, 18 U.S.C. § 3500, if the government elects not to comply with a court order to provide the defense with a "statement", as there defined, for cross-examination, the court may strike the testimony of the government witness or declare a mistrial. In cases where the testimony is essential to make a case, the government's election not to disclose can result in dismissal of the indictment.[11]

Under the laws governing patents and copyrights, Congress requires disclosure of the invention, or a filing of the copyright material as a consideration for "securing for limited Times to Authors and Inventors the exclusive Right in their respective Writings and Discoveries," U.S. Const., Art. 1, § 8, par. 8.

In all these instances, which are merely illustrations familiar to all, there is a *quid pro quo* of sufficient substance to balance the interests. So, also, compelled disclosures of proprietary information require a balancing *quid pro quo*. Because of the unique nature of the property, which exists only so long as there is only a disclosure that is itself privileged, the only suitable *quid pro quo* is an arrangement, tailored to the particular case, that insures against accidental, or unauthorized, or improper disclosure.

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11 A current example was reported in the Miami Herald of October 25, 1978 (UPI), in connection with the perjury trial in *U.S.* v. *Berrellez* (D-DC). The six felony counts involve allegations of lying under oath to conceal efforts financed by the CIA and ITT to influence Chile's 1970 elections. The U.S. Attorney had asked that the government not be required, during trial, to disclose otherwise relevant evidence that would involve national security secrets. Judge Aubrey Robinson denied the application, with leave to appeal his ruling within 5 days, and it was indicated that if the information could not be withheld, prosecution of the case would have to be dropped, even though Judge Robinson said that he would allow the testimony to be protected by "sealing the courtroom" while the sensitive data was adduced.

It must be emphasized that, in the context of this case, the issue does not involve the question of deprivation of property "without due process of law", nor the question of taking private property for public use "without just compensation", these being the two explicit provisions of Amendment 5 in respect to property. Rather, the question relates to the "taking" of private property at all, when the taking is not for public use but for private use. This prohibition is implicit rather than express, since it would be an insult to every notion that government may take property for public use only with just compensation, and yet be allowed to take private property for private use without any protection or compensation at all.

Nearly a century ago, it was decided wthat when private property is taken for public use without compensation, the federal courts may take jurisdiction of an action by the owners in ejectment against the agents of government to establish their rightful title, even though there be no statutory remedy, or an imperfect statutory remedy, for obtaining just compensation. See *U.S.* v. *Lee*, 106 U.S. 196, 220, 1 S.Ct. 240, 27 L.Ed. 171 (1882), which ruled that the heirs of General Lee were the rightful owners of what is now the Arlington National Cemetery, and (more to the point here) that the provisions of Amendment 5 *were intended to be enforced by the judiciary*.

U.S. v. *Lynah*, 188 U.S. 445, 23 S.Ct. 349, 47 L.Ed. 539 (1903), established the rule that the flooding of lands bordering a system of dams and walls across a river was a "taking" of property for which a judicial action and remedy would be provided, even though the Congress did not specifically direct that the property be taken, and even though there had been no formal proceedings to condemn the land.

Jacobs v. *U.S.*, 290 U.S. 13, 54 S.Ct. 26, 78 L.Ed. 142 (1933) ruled that even though condemnation proceedings are not instituted, the owner of lands may assert his claim for compensation in his own action. As Chief Justice Hughes observed there:

> "That right was guaranteed by the Constitution. The fact that condemnation proceedings were not instituted and that the right was asserted in suits by the owners did not change the essential nature of the claim. *The form of the remedy did not qualify the right. It rested upon the Fifth Amendment. Statutory recognition was not necessary.* Such a promise was implied because of the duty imposed by the amendment. The suits were thus founded upon the Constitution of the United States." (290 U.S. at 16, 54 S.Ct. at 27) (Emphasis added).

The *Lee* case is among the precedents relied on to support the action and the claim made in *Bivens* v. *Six Unknown Agents*, 403 U.S. 388, at 394, 395, 91 S.Ct. 1999, 29 L.Ed.2d 619 (1971).

The present case differs only in the respect that since there cannot be any "taking" for private use, and since the "taking" of the kind of property here involved, without authority in law, is "irreparable" in the sense of money damages, the remedy sought is different. The remedy sought is a declaration that the threatened "taking" is wrongful, and if that point be established, to prevent the unlawful taking.[12]

It is well known that this kind of question is not dealt with in the precedents, because traditionally the trade secret privilege has been recognized and

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12 Proprietary information, in the trade secret category, is not unlike the status of virginity. Once taken without consent, whether by seduction or rape, it is gone forever.

honored, not only in the courts but also in the other two branches of government. It is only since the enactment of the Freedom of Information Act, 5 U.S.C. § 552, as amended, that the problem has arisen. Through that law, anyone may ask for copies of documents which are among the records of the countless agencies in the Executive Branch, by merely paying the rate for making copies and without any showing of standing, legitimate interest or any other threshold requirement. Documents (that is, the information they contain) furnished under that law are automatically in the public domain, and to the extent that what is furnished amounts to proprietary information, the supplying of it obviously amounts to a "taking" by destruction of the privilege, and the taking is for the use of the private requester, thus making the process one of taking private property for private use. This is the root of the threat and of the risk in this case, for if the proprietary information be turned over to defendants without appropriate protection and assurance of protection *in advance*, the risk of loss by improper taking is necessarily a considerable risk.[13]

In their note to proposed Fed. Ev. Rule 508, the distinguished Advisory Committee observed:

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13 The legislative and public history of the FOIA discloses that the primary consideration for its enactment was to allow public access to internal government workings. The concern was mainly for "Big Brother" risks, as well as for undisclosed, inconsistent treatment of like matters on an *ad hoc* basis rather than by the rule of law. Invasions of privacy, a very broad concept that includes the accumulation in previously inaccessible government files of "raw data", whether reliable or not, was another facet of that concern. In the process, the Act also reached proprietary information possessed by government by compulsion (or voluntarily on recognition of the compulsory power) incidental to the performance of some governmental function. This kind of information was excluded by the black letter of the statutory provisions that

> "While sometimes said not to be a true privilege, a qualified right to protection against disclosure of trade secrets has found ample recognition, and, indeed, a denial of it would be difficult to defend. * * * Congressional policy is reflected in the Securities Exchange Act of 1934 * * * and the Public Utility Holding Company of 1933 * * *, which deny the Security and Exchange Commnission authority to require disclosure of trade secrets and processes in applications and reports."

Despite the express provision in the Federal Trade Commission Act, 15 U.S.C. § 46(f), denying the Commission the authority to make public "trade secrets and names of customers", and despite the provision in the Freedom of Information Act, 5 U.S.C. § 552(b)(3) and (b)(4), that

> "(b) This section [act] does not apply to matters that are—
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the "section" does not apply to specified categories of data, but a surprising number of courts have managed to read this language as discretionary rather than mandatory.

When the information is in the possession of an agency in the Executive Branch, and is requested on behalf of the Congress from the agency, the risk is considerably increased. Aside from the occasional and well-known instances of improper "leaks", the classic example of the risk involved is that of the late Senator Joseph McCarthy, whose practice it was to make public disclosures under protection of the "speech and debate" clause, *U.S. Const.*, Art. I, § 6, cl. 1.

While no improper motive is attributed to the Congress as an institutional body, any group that large has a reasonable likelihood of containing one or two members with ulterior motives, and the problem of a Senator McCarthy has not been solved. It takes only one member of Congress, using the speech and debate clause, to destroy proprietary information without remedy to the victim. The *Tobin* and *AT&T* cases mentioned later, show this to be reality.

"(3) specifially exempted from disclosure by statute;

"(4) trade secrets and commercial or financial information obtained from a person and privileged or confidential;"

there is still a live, active and sharply contested controversy here. One reason, among others, is that 5 U.S.C. § 552(c) says that: "This section is not authority to withold information from Congress."

At least since *Tobin* v. *U.S.*, 113 U.S.App.D.C. 110, 306 F.2d 270 (1961), *cert. den.* 371 U.S. 902, 83 S.Ct. 206, 9 L.Ed.2d 165 (1962), and through *U.S.* v. *Fort*, 143 U.S.App.D.C. 255, at 262-263, 443 F.2d 670, at 677-678 (1970), *cert. den.* 403 U.S. 932, 91 S.Ct. 2255, 29 L.Ed.2d 710 (1971), the courts have been urging the Congress to deal with the problem of claims of privilege, particularly in the extremely delicate setting of a Congressional subpoena. The problem is highlighted by *U.S.* v. *A.T.&T.*, 179 U.S.App.D.C. 198, 551 F.2d 384 (1976), in which the Department of Justice (in the Executive Branch) sought relief from the courts to prevent disclosure by a witness (AT&T) of information involving national security wiretaps under a subpoena by a subcommittee of the House of Representatives. The opinion is highly educational.[14]

Congress is not unaware of the problem. In Senate Report No. 95-170, to accompany S. 555 (95th Congress, 1st Session) the need for some rational resolution of this as-

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14 Earlier this year, the press reported that Secretary Califano of H.E.W. was subpoenaed by a Congressional committee to answer questions which the law forbids him to answer. If he declines to answer, he may be prosecuted under the same law involved in *Tobin*. If he answers, he violates the law which forbids the answer. The authorized penalty under each law is the same. Because the Congress has adjourned *sine die*, the question and his peril may be moot, at least until the next Congress convenes.

pect of the problem is recognized, especially at pp. 16-21. At this writing, whether any action was taken before the *sine die* adjournment of October 14-15, 1978 is not yet known.

There are other specific statutes involving regulatory agencies, enacted *after* the Freedom of Information Act, in which the Congress has explicitly stated that proprietary information is not to be disclosed, yet these, too, are the subject of litigation in District Courts throughout the country, one of them now pending here, in which the ruling has been delayed so that the court may consider the effect, or the applicability, of amendments enacted within the last month.[15]

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15 Under existing New Jersey law, N.J.S. 2A:119-5.1 to 5.5, the theft, embezzlement or copying of "trade secret" information is a criminal offense. These provisions have been embodied in the new Penal Code, N.J.S. 2C:20-1, et seq.

There are other statutory enactments which quite effectively express the balance between the need of an agency to have access to proprietary information, and the need of the owner to have that information protected against destruction by general disclosure.

One statute, N.J.S. 26:2C-9(d), dealing with inspections to locate sources of air pollution, provides that:

> "Any information relating to secret processes or methods of manufacture or production obtained in the course of such inspection, investigation or determination, shall be kept confidential and shall not be admissible in evidence in any court *or in any other proceeding* except before the department. ." (Emphasis added).

Another statute, the Mid-Atlantic States Air Pollution Control Compact, N.J.S. 32:29-1, et seq., uses the following language in section 24:

> "Any records or other information furnished to or obtained by the commission . . . which records or information, as certified by the owner or operator, relate to production or sales figures, or to secret processes or production, or which if made known to others would tend to affect adversely the competitive position of such owner or operator, shall be retained solely for the use of the commission and its employees, . . . and shall not be published or disclosed for any other purpose by any officer or employee of the commission or any other person without the written consent of such owner or operator."

Still another statute, assigning powers to the Interstate Sanitation Commission in respect to air pollution, provides, in N.J.S. 32:19A-5, that:

(footnote continued on next page)

Although this court does not claim to have searched all the statutes comprehensively, it is informed that there are at least 80 statutory sections, from Title 2 U.S.C. to Title 49 U.S.C., which employ the term "trade secrets". There are said to be more than 20 decisions of the Supreme Court of the United States, alone, in the period from 1944 to 1977 that deal with the term in some fashion. This is a massive literature in primary authority which reflects the wide recognition of the term and the concept it represents.

"No trade secret or secret process shall be inquired into by the Interstate Sanitation Commission under this act, whether with respect to 1 or more of the substances or 1 or more of the processes, operations, techniques or devices used in connection therewith, and whenever a trade secret or secret process is involved, the activity under this act shall be limited to the identification of the device or facility from which the effluent discharged into the outer air derives, and the nature, rate and period of emission of such effluent.

"All information obtained from any sampling, tracing or other specific inquiry performed under this act shall be kept and maintained as a confidential disclosure and, except as may be essential for the purpose of referring a complaint to an appropriate enforcement agency and of any enforcement proceeding by or before any such agency, shall not be disclosed or published in any way other than such as will not identify a given substance, process, operation, technique or device with the physical location or identity of the source plant or facility, or with the product made or service performed, or with the person or persons using the same.

"A printed copy of the provisions of this section shall be furnished on request to any person furnishing information to the Interstate Sanitation Commission and, in case of an inquiry at a plant or facility, to the person then in charge of the same."

This legislative treatment of the subject reflects an obvious recognition of well established common law and constitutional principles brought into play in circumstances involving proprietary information. Through one formulation or another, they strike a balance between agency needs for access to such information to carry out a regulatory function without invading the property interest. It is of some significance that there is no reported court decision on these statutes. The absence of such litigation speaks well both for the expression of the balance struck and for the honoring of the policies reflected in the statutes without agency attempts to evade or avoid.

With the foregoing as an analytical context, it is possible to turn to specific issues in this case. There is no need to repeat here the jurisdictional basis set out at the time the court ruled on the application for preliminary injunction. The determination there made is fortified by the decisions in *Lee*, *Jacobs* and *Bivens*, mentioned above.

That declaratory judgment relief is proper can hardly be disputed. The existence of a genuine controversey between specific parties, over issues that mainly involve questions of law going to their respective rights, duties and legal relations, and depending on the construction of Constitution and statutes, is clear.[16]

It is also clear beyond argument that defendants lack even a rule or regulation governing the subject at the nonpublic investigation stage, and that the proposed regulation, 43 Fed. Reg. 3571 (January 26, 1978) is woefully inadequate for the protection of private property.

It will not do to say that the agency, under ordinary principles, should first have the proprietary information submitted pursuant to its subpoena, and that it will enter-

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16 FTC has argued that there is no "imminent" threat of any disclosure to competitors or to the public, of any of the proprietary information, and thus that the suit is premature. The point is related to whether injunction is warranted, but not to declaratory judgment relief. In *Ortiz* v. *Engelbrecht*, 474 F.2d 977 (CA-3, 1973), the court reversed dismissal of a suit brought to challenge the "tacking" provision for service of process in dispossess actions. Judge Garth had dismissed because the landlord had decided to abandon the dispossess suit, and thus there was no basis for injunction. As the later proceedings show, 61 F.R.D. 381, at 395 (D-N.J. 1973), jurisdiction existed for processing to declaratory judgment.

Some reported opinions do reflect the view that where injunction is not warranted, then declaratory relief must also be denied. Such expressions may be instances of an exercise of discretion to withhold the relief if it be felt that a declaration would not resolve the controversy. They cannot be taken to hold contrary to what was enacted by the Congress in The Declaratory Judgments Act, 28 U.S.C. §§ 2201, 2202, which authorizes a court to "declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought" (Emphasis added).

tain a request for a letter for confidential treatment. This will not do for several reasons. One is that the owner of proprietary information should never make a disclosure of its content, either voluntary or involuntary, without enforceable restrictions against general disclosure, by contract or court order first obtained. Another is that allowing the agency to rule first furnishes an inadequate procedure, because the standards for review are extremely limited, and an owner of proprietary information runs the risk of loss of his property on procedural and technical grounds. It is the courts, not the administrative agencies in the Executive branch which are charged with seeing that the Constitution is honored; it is the courts, not the administrative agencies, that decide whether a "taking", even when authorized by statute, is in fact taken for a public use. See, *Shoemaker* v. *U.S.*, 147 U.S. 298, 13 S.Ct. 361 (1893).

No doubt the courts at one time were reluctant to accept the notion of a declaratory judgment as constituting a judicial act. This reluctance was one of semantics, as Professor Bouchard observed long ago, because courts of law and equity have both engaged in making declarations of rights, duties, status and legal relations for centuries. The action in trespass with a feigned issue is nothing more than a declaratory judgment to try title. Resolutions of conflicting claims between heirs and devisees, long known, are nothing more than declaratory judgments construing wills and statutes. Deliberate violations of municipal ordinances or statutes to invite charges defended by a challenge to the validity of the ordinance or the statute, are inherently proceedings whose object it is to obtain a declaration on the question of validity. A simple scanning

of the table of contents in Bouchard's classic text will display countless other examples.[17]

The only difference between those well established actions and the declaratory judgment action lies in the mere form of the action, and in the fact that in most cases a declaration is all the remedy that is needed. Once adjudicated, the dispute is resolved and the parties traditionally honor the adjudication. Further remedies, as by way of execution or enforcement of the adjudication, or by injunction "at the foot of the decree", is rarely needed, but can be provided in the same cause if necessary.

A modern recognition of the declaratory judgment action, perhaps the most civilized form of litigation of disputes yet devised, is found in *Super Tire etc.* v. *McCorkle*, 416 U.S. 115, 94 S.Ct. 1694, 40 L.Ed.2d 1 (1974), from this circuit, in which the Supreme Court sustained jurisdiction even against a claim of mootness, on the ground that the controversy was real, genuine and continuing, and the case was one capable of repetition, yet evading review.

The declaratory judgment is an especially valuable tool in a case like this one. Not only will the determination (whatever it may be) resolve the existing controversy between the parties, but to the extent that its outcome is sound it provides precedent to be considered in the resolution of countless other controversies involving essentially the same underlying question all over the country. Even though this case be massive and difficult, its correct determination promises far more in judicial economy than the many emergency cases that would need to be filed with

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17 Particularly applicable is the discussion in *Bouchard*, "Declaratory Judgments" (2nd Ed) under the leads "Titles to Personal Property" (pp. 753-758); "Administrative Powers and Disabilities" (pp. 875-900); and "Relief for Peril and Insecurity" (pp. 927-1019).

requests for temporary restraining orders after receiving a 10-day notice of intent to disclose proprietary information, which defendants propose.

The controversy is real and genuine. It involves a peculiar form of property that can vanish by evanescence, sublimation or osmosis. It is in that class of personalty, like the heirloom, the original manuscript of "Look Homeward, Angel", the Mona Lisa, the Venus de Milo, and other like items for which equity historically has provided the suitable remedy of specific reparation. By resolving the controversy now, through the declaratory judgment, the need for the extraordinary remedy of specific reparation can be avoided, as can the incalculable risk that even that remedy would be hollow if the *res* had meanwhile "gone public".

The court does not see this case as one of "judicial review" of some administrative action. Nor is this a case of conducting a hearing "de novo" after some administrative hearing and determination. Rather, this is a case invoking the original jurisdiction of the court, as a court of first impression. It is a plenary action to resolve a clearcut controversy. Plaintiffs assert their claims of rights, duties and legal relations, and defendants contest them. There is nothing in the law to suggest that a governmental official, or a government agency, cannot be a party to a controversy within the scope of a declaratory judgment action. The books in jurisdictions throughout the nation, state and federal, have many precedents of this nature in which the controversy is between private parties on the one hand and government on the other.

On the record before this court, it has been clearly established that the disputed documents contain proprietary information, that defendants have no right to make any of it public or to provide it to a requester under

the Freedom of Information Act or any other act, and that plaintiffs are entitled to a declaratory judgment to resolve the controversy. The court so finds on both the facts and the law.

Ordinarily, this is as far as a court would need to go. Ordinarily, a court would refrain from granting other or further relief beyond the declaratory judgment. This is especially so in a case involving officials and agencies of government because the court expects that the declaration will be honored and adhered to so long as it remains in force.

With due regard for recognition of the principles of comity between the several branches, and with considerable reluctance, the court concludes and finds that its judgment in this case must provide a suitable remedy beyond the declaration itself.

The reason for this conclusion and finding is that in the course of the case, the defendants chose with awareness and deliberation to decline to submit some 152 documents sought for discovery, for *in camera* inspection so that the court could rule on various claims of privilege raised by them. The court's orders in this regard were drafted with great care, to assure defendants the same protection as is claimed by plaintiffs for their privileged information.

The mechanism chosen called for delivery of all the documents to the U.S. Attorney, who is the attorney of record for defendants under the General Rules of this District. A list of the documents was to be furnished to the court under seal, along with a designation of a few items in each claim of privilege to be inspected *in camera* under seal. Defendants were assured that no ruling adverse to any claim of privilege on any document would be made without first conducting an evidentiary hearing from which plaintiffs and their counsel would be excluded.

To the extent that defendants asserted that some documents contained proprietary information owned by persons not party to the action, the order directed that those persons be given notice so that they might appear and be heard on the question.

The court's orders in this regard were not honored. It is satisfied that this disregard of orders was not out of disrespect for the court, but rather to preserve some unknown and unidentified legal issue never presented. The cases are essentially uniform and clear that all the privileges claimed by defendants, like the privilege claimed by plaintiffs, are qualified privileges for which *in camera* inspection, hearings under seal, necessary deletions of sensitive matter, and the like, are part of the regular business of the trial courts.

The posture taken on these orders is both distressing and dismaying, because the clear inference is that a declaratory judgment, without more, will similarly be disregarded.

The process of balancing interests when dealing with privileged information subject to qualifications is quite simple. Given a colorable showing that the information is proprietary, recognition of the property right takes the form of ready (and not stingy) award of suitable protection against improper disclosure. The greater the degree of protection, the more generous a court can be in ordering disclosure. But when the indications are as strong as they are here that orders of the court will not be honored, there can be no confidence that its declaratory judgment, by itself, will be honored.

What form that kind of additional relief ought to take is reserved until such time as the court has heard both sides on the issue. In the meantime, the protective order originally entered herein and as later particularized and re-

fined, will remain in full force and effect. This will assure that the subject of the controversy will remain in the jurisdiction of this court pending resolution of the question now posed. This is seen as unavoidably necessary, for the time being, even though under other circumstances the court's inclination would be to supplement the declaratory judgment with a protective order to preserve the subject matter, and otherwise allowing delivery of the documents to defendants in Washington on suitable terms. The recalcitrance of defendants precludes that usual approach in this case and at this time.

The heart of the controversy having been disposed of above, it remains to treat a number of collateral issues.

The source of the claim is said to arise under Amendments 4 and 5 of the U.S. Constitution, under the FTCA, 15 U.S.C. § 41 et seq., under the Adninistrative Procedure Act, 5 U.S.C. § 551, et seq., 18 U.S.C. § 1905, The Declaratory Judgments Act, 28 U.S.C. §§ 2201, 2202; the Census Act, 13 U.S.C. § 9, and the Federal Reports Act, 44 U.S.C. § 3501, et seq.

In view of the analysis of the controversy, it is clear that the claim arises under federal law, the primary sources being Amendment 5 of the U.S. Constitution, the FTCA, and The Declaratory Judgments Act. The other references, to the extent pertinent, are corroborative of these major sources whether they provide independent grounds or not.

Jurisdiction is claimed under 28 U.S.C. §§ 1331, 1337, 1361, and 2201 and 2202. The last two sections authorize the declaratory judgment remedy but are not jurisdictional grants in themselves. Jurisdiction is also claimed under 5 U.S.C. §§ 701-706, but in view of the footing based on the Constitution, in the light of the *Lee*, *Lynah*, *Jacobs* and *Bivens* cases, and because of the restricted nature of the Administrative Procedure Act in compari-

son with the full, plenary nature of the action on constitutional aspects, these souces add nothing to the jurisdictional question.

Venue was also challenged. The court sees no arguable issue in this regard. The non-public investigation was aimed at I-R which is here in New Jersey. As the parent company owning all the stock of its wholly owned subsidiary, Torrington, I-R is the "real party in interest." Since venue is clearly proper as to I-R, there is no reason why proper parties like Mr. Wearly (to whom the subpoena was addressed) and Torrington (which manufactures the NRB's and LNR's) cannot join as plaintiffs in the same action. Had I-R brought suit alone, both could have applied to intervene because of their related interests, which are inextricably intertwined.

While this is probably not a "local" rather than "transitory" action, the fact is that property rights and property interests, in the context of a "taking" by government, are traditionally defined by state law rather than federal law. See, for example, the Annotation at 1 ALR Fed. 479. Local law in the District of Columbia could not possibly have any application.

Next is the qustion whether FTC's summary proceeding for a court order to enforce the subpoena was a "mandatory counterclaim" under F.R.Civ.P. 13(a). The court is satisfied that it was. The language and the sense of the rule are clear: it requires, in mandatory form, that a pleading "shall state as a counterclaim *any claim which at the time of serving the pleading* the pleader has * * * " (Emphasis added). The term "claim" is extremely broad and more than adequate to embrace FTC's claim for a subpoena enforcement order.

FTC protests, however, that under section 9 of the FTCA, such proceedings can only be brought in the dis-

trict where the agency inquiry is being carried on, namely in Washington, D.C., and it so persuaded the learned District Judge there on the application of Mr. Wearly and I-R to transfer venue of the subpoena enforcement proceeding to this district (see Transcript of Hearing, Exh. D-1-C, vol. III, pp. 820-821). With due regard to the view of that trial court, the question there presented was different. The question there was one involving a transfer of venue. The question here, where the plenary action was already pending, involves the applicability of the mandatory counterclaim rule. Only this court could effectively rule on the point, since a mandatory counterclaim could only have been filed here, not in the District of Columbia. The court is satisfied, and finds, that the summary enforcement claim is a claim coming within F.R.Civ.P. 13(a), and that it should have been stated as a counterclaim along with the answer in this case.

The mandatory counterclaim requirement is the closest that federal courts have come to the achievement of the laudable "single controversy" doctrine, under which all parties to a pending action in one court must assert in the same proceeding any and all related and connected claims.

Nor is the "venue" argument persuasive, in terms of where the "inquiry" was being conducted. The principle is wellestablished that when the mandatory counterclaim rule applies, venue requirements that would otherwise control have no application. No other treatment could possibly achieve the worthy purposes of the mandatory counterclaim requirement.[18]

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18 Venue is controlled by where the case is "brought"; since a suit was brought here by plaintiffs, the venue requirements do not apply to the compulsory counterclaim. See *Lesnik* v. *Public etc.*, 144 F.2d 968 (CA-2, 1944); *G&M Tire* v. *Dunlop, etc.*, 36 F.R.D. 440 (Miss., 1964).

Nor is any independent jurisdictional ground needed for a compulsory counterclaim, *Moore* v. *N.Y. Cotton Exchange*, 270 U.S. 593, 46

There is neither time nor space here to detail the independent steps taken by FTC, well after this action was underway, to initiate summary subpoena enforcement proceedings in the District of Columbia, although the full record there has been carefully reviewed. Suffice it to say that their culmination in an enforcement order is not res judicata of the issues here. In such proceedings, the party haled into court cannot assert, as a matter of right, claims and issues like those asserted here, and insist on having a decision on the merits. Nothing decided in the District of Columbia reached or decided the issues involved here. At best, they were regarded as premature, presumably to be considered after the claim of privilege had been asserted before FTC, in connection with a proceeding for contempt or a criminal prosecution. For the reasons discussed above, the questions cannot be premature because proprietary information should never be disclosed unless the privileged conditions or protective order are first established.

If anything is clear about the law of res judicata, it is that the court in which that claim is advanced is the only court authorized to decide the issue. That court is this court. The record is clear that the summary proceedings in the District of Columbia, although culminating in an enforcement order earlier in time than this ruling, neither took up nor decided the issues decided here. Absent an earlier *decision*, the defense of res judicata has no application.

Finally, there is the matter of sanctions sought by plaintiffs against defendants for their outright refusal,

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S.Ct. 367, 70 L.Ed. 750 (1926); *Scott* v. *Fancher*, 369 F.2d 842 (CA-5, 1966).

For an excellent discussion of the "single controversy" doctrine as such, see *Bennun* v. *Board of Governors, etc.*, 413 F. Supp. 1274 (D-N.J. 1976).

although respectful, to comply with the discovery orders here. The court believes that this point should be reserved for further deliberation and further hearing after the parties have recovered from the "heat of battle". Without sanctions, the evidential record is extremely strong. The testimony of plaintiffs' witnesses fully supported their claims, and were in no way depreciated by cross-examination. The samples of the disputed documents which the court inspected *in camera* fully corroborated that testimony. Under this court's discovery order, granted at defendants' request, all of the documents were gathered in New Jersey, put under strict controls to assure integrity and reliability, and made available to defendants not only for the purposes of this case, but also so that they could proceed with the non-public investigation at the same time. Defendants chose deliberately not to inspect the mass of documents so made available. The court can only infer and conclude that they are well aware that even with such inspection and further testimony, they could not successfully controvert the showing made that these sensitive documents contain proprietary information entitled to an effective protective order.

The record also contains examples of a number of instances where informal arrangements for confidential treatment of proprietary information were not strictly honored. One in particular, where proprietary information was made public without notice to the provider, and despite a supposed protective order by an administrative judge, is enough proof of the reality of the threat and risk in and of itself. Defendants argued that the disclosure did not violate the literal terms of the order, but it strains credulity to argue that this position is other than hypertechnical and that both the FTC staff and the administrative judge must have been fully aware that the disclosure

was an evasion, and a violation of the spirit of the order. This kind of behavior by government simply cannot be countenanced.

So far as the 152 documents are concerned, the fact that claims of privilege were raised allows no adverse inferences to be drawn. However, the unexplained refusal of defendants to submit these documents for *in camera* inspection and for hearings under seal without the presence of any representative of plaintiffs does warrant the inference that, if the privilege claims were found to be unwarranted or subject to a balancing test, the facts disclosed thereby would have been adverse to defendants.

As noted above, the decision here is reached without the benefit of these inferences. The utter inadequacy of a suitable system of full protection against disclosure, established *before* any proprietary information is turned over, is sufficient to support the judgment.

Also, although some courts have regarded criminal statutes such as 18 U.S.C. § 1905 as providing adequate protection, this court cannot agree. This kind of statute is at best precatory and unenforceable as of right by the aggrieved person. The most the owner of proprietary information can do, if his property is destroyed by improper disclosure by a government employee, is to file a complaint charging violation of the criminal statute. Given the vast number of government employees, and the plethora of copy machines, the complaint would doubtless have to be against "John Doe". From that point on the vindication of his claim through the criminal justice system would be dependent entirely on the efficacy of the investigative process and prosecutorial discretion whether or not to press the charge. And a "reasonable doubt," by itself, would be enough to bar conviction. Even if the culprit were found, charged, tried, convicted and

sentenced, this would be no remedy at all for the loss of property through improper disclosure. The damage would have been done, and would be irreparable. Nothing short of enforceable means establshed in advance of compulsory disclosure will serve.

After review of this ruling, the parties are directed to appear before the court on November 3, 1978, at 10 AM, so that they may present their views in regard to the tenor and phrasing of a final judgment in accordance herewith.

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEW JERSEY

Civil 77-1860

W.L. WEARLY, INGERSOLL-RAND COMPANY, THE TORRINGTON COMPANY,

Plaintiffs,

vs.

FEDERAL TRADE COMMISSION, MICHAEL PERTSCHUK, CHAIRMAN, CALVIN J. COLLIER, DAVID A. CLANTON, M. ELIZABETH HANFORD DOLE, PAUL RAND DIXON,

Defendants.

FINAL JUDGMENT

This matter having come to trial by the court without a jury on various dates, beginning October 17, 1977 and continuing thereafter as criminal jury trial demands allowed, and having concluded on July 13, 1978 for the reasons set forth in the record of the case, and reflected in the Opinion, dated October 18, 1978, it is on this 29th day of November, 1978

ORDERED, ADJUDGED, AND DECREED that:

PART I

DECLARATORY JUDGMENT

1. This plenary action is an action in which declaratory relief as well as other and further relief may properly be

granted under the Constitution, statutes and law; jurisdiction exists and venue is proper.

2. The information contained in the documents placed in the custody of this Court by its order of April 21, 1978 as particularized in later orders, in the five categories particularized in the record, are the subject matter of this action, and are determined to constitute and contain proprietary trade secret and confidential financial and business information (hereinafter referred to as "proprietary information") which is the property of plaintiffs Ingersoll-Rand and Torrington.

3. The documents and the proprietary information contained therein are entitled, under the 5th Amendment to the Constitution, the statutes and the law of New Jersey to protection from taking by government for private use by unauthorized disclosure, or for public use without just compensation.

4. Defendants' policies, procedures and Rules of Practice, as related to the FTC subpoena *duces tecum* dated September 15, 1976, issued to plaintiff W.L. Wearly (not the owner of the property) in connection with non-public investigation 751-0025, fail to accord any privately enforceable protection to the proprietary information. Disclosure of the documents and the proprietary information pursuant to the subpoena without suitable protection to accompany disclosure presents and constitutes an imminently real and substantial risk of irreparable injury warranting judicial determination and decision of the controversy.

5. The disclosure of such proprietary information to defendants without suitable protection to accompany dis-

closure would constitute a taking of property within the meaning of paragraph 3 above, and would expose plaintiffs to the risk of irreparable injury within the meaning of paragraph 4 above.

6. Any claim which the FTC is authorized to make for judicial enforcement of the subpoena *duces tecum* has been determined to be a compulsory counterclaim under F.R. Civ. P. 13(a) under the circumstances of this action. Defendants failed to make any claim for enforcement of the subpoena in this action, and failed to inspect the documents, although inspection was made available, both for the purposes of this action (at defendants' request) and for the purposes of said non-public investigation.

7. Under the specific facts of this case, Wearly acted as a fiduciary of property belonging to others and was not and is not required to produce the documents and proprietary information now in the custody of this Court, in response to said subpoena without suitable protection to the owners thereof.

8. No subpoena having been issued to Ingersoll-Rand or Torrington, they were not and are not required to submit said documents and proprietary information to Wearly (their fiduciary) for delivery to the FTC, nor are they required to deliver said documents and proprietary information in response to said subpoena without suitable protection of their property therein.

9. Pending final determination on appellate review of this judgment, all said documents and proprietary information shall remain in the custody of this Court. No party shall have access thereto except by order of this Court on

written motion and notice, good cause therefor having been shown, except as hereafter provided.

PART II

Pending final determination after appellate review, access to the documents and proprietary information will continue to be made available to defendants pursuant to the following protective order provisions, which are a continuation of the order of April 21, 1978 and the later particularizations thereof.

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEW JERSEY
Civil No. 77-1860

W.L. WEARLY, INGERSOLL-RAND COMPANY, THE TORRINGTON COMPANY,

Plaintiffs,

—v.—

FEDERAL TRADE COMMISSION, MICHAEL PERTSCHUK, Chairman, CALVIN J. COLLIER, DAVID A. CLANTON, M. ELIZABETH HANFORD DOLE, PAUL RAND DIXON,

Defendants.

November 30, 1978

APPEARANCES:

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OPINION

BIUNNO, *District Judge.*

At the hearing of November 3, 1978, which was set to hear the parties on the form of final judgment to carry out the opinion of October 18, 1978, defendants asked leave to make a submission for reconsideration, and that leave was granted. The submission has been received, and is decided here. Reconsideration is denied, for the reasons stated here. Each major head argued is taken up separately.

Dismissal, stay or transfer

Many administrative agencies are authorized by law to issue subpoena in the course of their work. So far as known, none has authority to enforce its own subpoena. Enforcement is a matter for the judicial branch alone.

Subpoena enforcement proceedings in the federal courts are a generally undefined type of proceeding. There is hardly a motion day without one or more items of this kind, mainly from IRS. There are also "walk-in" applications, mostly involving grand jury subpoenas.

The common characteristic of all these proceedings is that they are summary in nature, not plenary. This action is plenary. It asserts property interests for adjudication of their nature, and of the respective rights, duties and legal relations of the parties. The controversy between the parties is real and sharply defined. It involves unavoidable constitutional aspects. None of the decisions relied on by defendants decides these questions.

In brief, defendants' posture is to avoid, or put aside a ruling on the merits. They seek to postpone it until such time as the property right has already been invaded and the property itself destroyed by disclosure.

Why any administrative agency should press so hard for a disposition which decides nothing, and only perpetuates the controversy is beyond understanding. Nothing in this court's ruling prevents the agency from having the information it seeks in order to carry out its statutory function.

All that the decision does is to adjudicate that the contested information is in fact proprietary, and that while the agency may have it for its own work, it may not disclose it to others without suitable protection against destruction.

Defendants made it eminently clear, at the last day of trial on July 13, 1978, that even though the court had ordered everything they sought gathered in one place under secure control, they had no intention of inspecting that material.

It is therefore clear that the issue is not whether the material may be seen, but whether defendants shall have control of the decision whether to disclose its contents. No one who owns proprietary information can safely allow another to have that control. Thus, the controversy implicates the right of controlling disclosure.

If A pledges property to B as security for a debt owed to B, and B asserts a right to decide whether to convert the property to some other purpose, the controvery arising from the diametrically opposed claims of right are real, they are ripe and they are justiciable. The declaratory judgment remedy was conceived for precisely that kind of situation.

Nothing has been shown to warrant alteration of the court's ruling on this ground.

Mandatory counterclaim

The ruling made was that defendants' claim of right to an order for enforcement of its subpoena came within the rule on mandatory counterclaim. Defendants argue that at the time answer was filed, the extended return date of the subpoena had not yet arrived.

The argument goes to form, not substance, and is the kind of argument that would make Chitty smile in glee. In the first place, the witness had already made it as clear and emphatic as he could that he would not produce the documents. This posture is at least an anticipatory breach,

and it was long ago that the courts decided that a claim can be asserted, even though the time for performance had not arrived, under such circumstances. In the second place the argument carries the implication that the agency issuing the subpoena can easily circumvent the mandatory counterclaim rule by itself postponing the date for appearance, even though it was fully aware of the reality of the controversy. To allow this would be to allow deliberate subversion of the purpose and object of the rule.

In a declaratory judgment action, it is not necessary that the claim have "matured" in this sense. If it were, there would be no point to the declaratory judgment remedy.

The argument on this point is unpersuasive.

Investigative Authority

The argument is made that the opinion endorses denial of the information to the agency under its subpoena. The opinion does no such thing. On the contrary, the action taken in the course of trial made the contested documents available to defendants for the purposes of the investigation. The argument puts up a straw man. The fact that defendants have not seen the subpoenaed documents is due solely to their own deliberate refusal to look at them. This argument is specious.

Property Law

It is argued that property law of the States cannot control federal agencies. Like it or not, the fact is that the Supreme Court has ruled otherwise.

The most recent expressions of which the court is aware are *Board of Regents* v. *Roth*, 408 U.S. 564, at 577-578

(1971), and *Paul* v. *Davis*, 424 U.S. 693, at 709 (1976). Both decisions recognize the obvious, namely that while the Constitution protects property rights or interests, the rights and interests themselves nearly always are created by or are defined by state law.

Whatever differences there may be in state property law in other respects, the recognition of property interests in proprietary information is well-nigh universal. Even were it not, federal agencies and federal courts are bound by the Constitution to guard and protect those interests.

Whether a federal agency is "independent," or is part of a department in the Executive Branch is hardly pertinent. The Constitution binds all. Were this not so, "independent" agencies might delude themselves into believing that they are above the law. Those who do not study history are doomed to repeat it. This nation does not need to repeat the Spanish Inquisition, the Star Chamber or the drum-head court-martial.

Disclosure to FTC

It is argued that disclosure of proprietary information to FTC does not amount to a waiver, or otherwise terminate the property interest. This point is argued semantically as though the subject were the waiver or loss of an evidential privilege. But, as the opinion decides, the evidential privi lege is no more than a facet reflecting the property interest that underlies it. The property interest is unique in that its existence ends with disclosure. It follows that to disclose the information without unequivocal assurance that it will be kept confidential is to risk loss of the property. The risk arises with the uncontrolled disclosure. The actual loss of the property occurs with disclosure to competitors or to the public. The declaratory judg-

ment remedy is designed to establish the right and to eliminate the risk. When actual outside or non-confidential disclosure occurs, it is too late for any effective remedy.

The declaratory remedy establishes that when the agency obtains the proprietary information it possesses someone else's property; it is essentially a fiduciary. The agency, as such, has no right to destroy that property.

It is the law in this circuit that the Declaratory Judgments Act should have a liberal interpretation, *Simmonds, etc.,* v. *Elastic, etc.*, 275 F.2d 485 (CA-3, 1958); *Davey, etc.,* v. *American, etc.*, 137 F.2d 68 (Ca-3, 1942), *cert. den.* 320 U.S. 761. And the decision whether to grant or deny this remedy is discretionary; the decision (either way) will not be reversed in the absence of an abuse of discretion. *Davis* v. *Romney*, 490 F.2d 1360 (CA-3, 1974); *General Motors* v. *Volpe*, 457 F.2d 922 (CA-3, 1972).

As this court sees the controversy, the declaratory judgment remedy is warranted on the black letter of the law without the benefit of a liberal interpretation, and to the extent that discretion is involved, its exercise in favor of the remedy far outweighs the converse.

The instance of admitted disclosure in the SKF proceeding was discussed at some length on the last day of trial on July 13, 1978. In that matter Torrington was a witness subpoenaed to provide records for a hearing before an administrative judge in a proceeding against SKF. Before submitting the documents (not after), Torrington was provided with a protective order of the administrative judge, calling for 15 days' notice to Torrington if anyone intended to offer its data in evidence, so that its receipt could be protected. There is no explanation of the

method by which it was done, but evidently SKF's counsel was furnished with the supposedly protected Torrington data, and that counsel offered it in evidence *in camera*, without notice to Torrington. There then followed a ruling of the administrative judge which effectively disclosed to all competitors the proprietary information involved. See Tr., 7/13/78, p. 127, l. 4 to p. 131, l. 23. This was done without notice to Torrington.

This incident occurred in connection with hearings on an administrative complaint against SKF, for which the agency does have published rules (unlike a non-public investigation proceeding). Defendants relied on the last sentence of FTC Rule 3.45, which specifically reserves to the administrative law judge and to the Commission an uncontrolled "right" to disclose the protected information without notice or opportunity to be heard.

Accordingly, the administrative law judge's protective order was a clear case of the classic situation where "The large print giveth and the small print taketh away."

The reservation of a "right" to disclose proprietary information at the will or whim of the administrative law judge or of the Commission is diametrically opposed to the long-established and careful practice reflected in the decisions cited in footnote 6 of the main opinion dated October 18, 1978. As observed there, even an injunction in a trade secret case does not disclose the identity of the trade secret. That information is recorded in camera, and sealed.

This example, by itself, is enough to show that disclosure to the Commission, even under formal rules not available for a non-public investigation entails too great a risk and so requires judicial protection.

Nor is it pertinent to argue that plaintiffs have not requested the protective agreement offered as a practice (though not by formal rule) in non-public investigations.

In the first place, that practice requires that the proprietary information be first supplied without any kind of protection. Staff then does no more than recommend that the Commission approve a protective agreement, without any assurance that it will do so.

In the second place, the nature of the protective agreement given, if authorized, is known and is in the record. As adjudicated by the main opinion, the terms offered are inadequate, and are unacceptable. These facts being clearly established, there is no point to going through the exercise first, before judicial adjudication, with the integrity of the proprietary information meanwhile in jeopardy through unprotected disclosure.

The risk or threat is present and real. As with fire insurance, the risk must be protected by obtaining a policy before a fire. Once a fire occurs, it is too late to buy a policy. The policy insures the risk and indemnifies the loss should one occur.

The remedies of declaratory judgment coupled with a protective order are insurance against the risk clearly shown by the record. The agency is not denied the information by the judgment; it is provided with it, even though it has chosen deliberately not to look at anything for many months.

What the agency may not do, under the protective order provisions is destroy the property, and it is conceded on the record that the agency is bound by the Fifth Amendment.

The "property" and "taking" aspects

This argument ignores the recognition, as property, of information of the kind involved here in *Kewanee* v. *Bicron*, 416 U.S. 470 (1970), cited and quoted in the main opinion, as well as the New Jersey cases and statutes there mentioned. It is without substance and avoids the issue.

A requirement for disclosure to an agency without advance protection to foreclose further disclosure is what gives rise to the risk of loss, against which the owner is entitled to protection. The argument that no "taking" occurs until there is an outside disclosure ignores the existence of the risk without insurance, and ignores the right of an owner to have a declaration that the agency has no valid claim of right to disclose to others. Title to realty may be in controversy, but either claimant is entitled to a declaration of the title without awaiting a physical trespass.

Defendants concede that plaintiffs are entitled to an adjudication, but want that step postponed even though the risk may meanwhile mature. Everything needed to be known then is known now, and delay or postponement only aggravates the risk, without insurance against the risk meanwhile.

Nor is there any sense in speculating whether the agency might agree to acceptable protection. The opportunity to offer such an agreement has been available ever since this suit began, and a suitable offer would have likely mooted the case. Yet, no suggestion of an offer was made until the last day of trial and, to say the least, it was an offer no one could rationally accept. See Tr. 7/13/78, p. 50, l. 18 to p. 56, l. 4; p. 89, l. 4 to p. 91, l. 13.

Res judicata

Mention has been made of the subpoena enforcement proceeding in the District of Columbia, and the order made there to comply with the subpoena. The entire record there has been examined thoroughly, as it must be to weigh the claim of res judicata. From that record it is clear that no decision on the merits of the issues here was handed down there.

At most, the ruling there was that plaintiffs would have to wait for a decision on the merits until after they had disclosed the documents to the agency. Whatever the correctness of that ruling may be (and this court expresses no view), the rationale for postponement is inapplicable here because the agency has had the means since then to look at the documents for the purpose of the non-public investigation for some months, under the original protective order and its later particularizations. In fact, it was made explicit that the agency had instructed its staff not to look at the documents; Tr., 7/13/78 p. 95, l. 7 to p. 96, l. 25. This fact was not before the enforcement court. This deliberate inaction precludes any claim here that the issue is premature. Defendants had every opportunity to satisfy themselves on the issue and chose not to do so. Parties cannot be allowed, by dilatory tactics, to keep an issue premature.

The court finds nothing to support the claim of res judicata, and this ground is also without substance.

Exhaustion

The exhaustion claim is merely a different way of arguing that plaintiffs should first submit the proprietary information, ask for a protective letter, and if dissatisfied,

come to court. As noted above this course puts the information at risk for a period of time from delivery to the agency.

Under these conditions, exhaustion is an unwarranted requirement without a protective order meanwhile. In this case, as noted above, the records have been available for some months and any lack of exhaustion is attributable to the agency's own refusal to look at the documents.

Nor is there any reality to the expressed concern that rejection of the exhaustion doctrine in a case like this will generate many civil suits to obtain judicial protection, thus burdening the courts and delaying the agency's work. The concern is merely a self-inflicted wound. Given the ruling that proprietary information is entitled to advance protection before disclosure, the agency need only abandon the wholly inadequate rules and practices it now has, to adopt fully adequate rules for complete protection, free of any alleged "discretion." Such an obvious course would eliminate the source of such controversies and would generate no judicial burden and cause no delay. The agency need only recognize that when it receives proprietary information it holds the property of others, that it has no right to destroy it, and that it is bound to honor the Constitutional bar against a taking.

Once it does this, its talented staff can easily prepare effective rules. The difficulty now is that the agency wants to control the protection, which it cannot do, and seeks to give only lip service to the constitutional command.

Highly sensitive proprietary information is furnished daily, all over the country, in countless transactions with licensees, with financial institutions, with interested buy-

ers, and others, under full protection by agreement or custom. This vast activity has not given rise to any noticeable amount of litigation nor has it hindered the transactions; the protection is obviously honored, and this expedites the work.

Injunctive relief

The argument under this head needs no discussion. The opinion of October 18, 1978 did not grant an injunction, nor did the final judgment.

The judgment grants declaratory relief (which, incidentally, is granted by courts of law as well as courts of equity, depending on the subject matter), sets out protective order provisions, and retains jurisdiction for a number of purposes broad enough to include extensive modification once the agency acts to provide full protection itself.

Copies of documents

The agency argues that plaintiffs must have other copies of the documents placed in the hands of the custodian, and that nothing prevents them from producing such other copies in response to the subpoena.

This argument misconstrues the orders of this court in the same way they were misconstrued in the course of the trial.

The aggregation of the documents and their placement in the hands of the custodian guarantees to the agency (a) their right to see them; (b) the integrity of the collection. Plaintiffs cannot, under this arrangement, unilaterally remove or alter any of the documents. They are secured.

Some of the documents inspected by the court had the appearance of computer printouts. It would hardly be surprising in 1978 if much of the information reflected by the documents were also stored in some medium of a computer memory, whether tape or disc or magnetic bubbles.

But the fact that plaintiffs continue to possess their own information in some other form, or even as documents, carries no implication that they are in violation of this court's order to make the custodial deposit. The information is plaintiffs' property and this court could no more deprive them of their own property than the agency can.

What the agency wants is the information. That information has been gathered and secured for its use with full protection to its owners, and with assurance to the agency that what is there is as safe as though it had physical possession itself. It cannot ask for more. It would receive no more if it had suitable and complete protective procedures and the documents were turned over voluntarily in reliance thereon.

The orders and the judgment protect the information and the agency cannot be allowed to circumvent that protection by claiming that other copies can or should be made and supplied under the subpoena.

The Exxon decision

At various places in its submission, the agency relies on a decision of the Court of Appeals for the District of Columbia in *Exxon Corp.* v. *F.T.C.*, No. 77-1302, slip opinion of October 19, 1978.

That ruling came down a day after this court's opinion, and one day before oral argument on appeal in the subpoena enforcement case.

The transcript of the oral argument shows that the Court of Appeals had not had time to study this court's opinion of October 18, 1978, and that counsel were not aware of the new Exxon ruling.

That case was a narrow one, involving only the question of notice to parties before disclosure of their proprietary information, and safeguards to ensure continued confidentiality once it is disclosed to the Congress.

The court there, while recognizing the need to protect the owners of valuable trade secrets, was reluctant to become engaged in what it considered to be "rule making" for the agency, and considered the imposition of a mandatory notice period as skirting close to a temporary equivalent of quashing a Congressional subpoena.

The decision here involves no such problems. As noted above, the declaration of rights, status and legal relations instructs the agency that it does not own the proprietary information belonging to others and cannot deal with it as its own. If it receives a request, whether FOIA or a subpoena from Congress, it is duty bound to advance the owner's claim. This is no different in principle than the duty of an attorney to decline to disclose confidential communications with his client. It is no different than the duty of the employee, who knows a trade secret belonging to his employer, to advance the claim for the owner if called on subpoena.

In those cases, the issue winds up in court anyway because the Congress cannot enforce its own subpoenas any more than the agency can.

This court does not share the confidence that the agency or the Congress will establish suitable policy. The agency resisted protection for the property because it

wants "discretion" to release it to competitors or to the public, without notice (e.g. FTC Rule 3.45), under no stated norm or standard. The Congress has been aware of the problem at least since *Tobin* v. *U.S.*, 306 F.2d 370, (CA-DC, 1961) some 17 years ago, when the D.C. Court of Appeals urged that something be done, but it has done nothing since except to enact a very tentative approach in the provisions of S. 555 applicable only to the Senate and only last month.

Nor does this court consider that the disposition in *U.S.* v. *A.T. & T.*, 551 F.2d 384 (CA-DC, 1976) provides any solution. In that case the court did no more than remand to the District Court to try to work out a settlement. While many cases do get settled, and while courts encourage settlements, they cannot order settlements. If the parties cannot settle, the judicial function is to decide, no matter how difficult or delicate the decision may be. Only the judiciary stands as the bulwark for the rule of law. Only the judiciary can assure that the system of checks and balances between branches of government, and between government and the people, is maintained so that it can function as intended.

Neither government as a whole, nor any branch, nor any department, nor any independent agency has any existence except as a servant of the people. This high duty can only be performed if the judiciary has the courage to face the facts, apply the law, and decide.

Other points

The submission argues a number of other points which are alternative ways of advancing the same propositions already dealt with, and these are equally unpersuasive. They call for no further discussion.

Formal findings of fact and conclusions of law

Plaintiffs have urged the court to draft formal findings of fact and conclusions of law, and made detailed submissions by proposed drafts.

These have been thoroughly reviewed, and the court sees no purpose to adding to what is already in the record. F.R.Civ.P. 52(a) expressly provides that if an opinion or memorandum of decision is filed, it will be sufficient if the findings of fact and conclusions of law appear therein. The court has carefully reviewed the opinion of October 18, 1978 as well as this one, and is satisfied that the rule has been complied with.

s/ VINCENT P. BIUNNO,
U.S.D.J.

Original to Clerk

DAVID MCCANN, ESQ.
JEROME B. SIMANDLE, AUSA
SAM RADIN, ESQ.

United States District Court
Room 411, U.S. Post Office Building
Newark, New Jersey 07102

VINCENT P. BIUNNO
Judge

MEMORANDUM

Re: Wearly v. FTC, Civ. 77-1860

Final judgment in this case was signed November 29, 1978, filed November 30, 1978 and docketed December 4, 1978. An order denying defendants' motion to reconsider the court's opinion filed October 19, 1978 (and amended to add footnotes, filed November 16, 1978) was denied by order filed December 4, 1978 and docketed December 6, 1978.

On December 14, 1978 defendant filed a motion to vacate and amend the final judgment (which the motion called an "order") and on the return date the motion was ordered to be decided under Rule 78, without oral argument.

On January 29, 1979, defendants filed a notice of appeal from so much of the final judgment as rejected the defense of res judicata. That appeal, as well as earlier appeals, is pending.

From the time the motion to vacate or amend was filed, there was an intermittant flow of further submissions of various decisions thought to be pertinent, and responses thereto.

Also, on February 1, 1979, defendants filed a motion for clarification of certain provisions of an interlocutory

order of May 22, 1978, and after the April 18, 1979 decision in *Chrysler* v. *Brown*, ____ US ____ (1979, the court invited submissions by the parties on its effect here.

Finally, in early June, 1979, defendants filed a motion to certify, under 28 USC § 1292(b), the denial of their various (and earlier) motions to dismiss. This last motion was set for June 25, 1979 but because of an ongoing criminal jury trial which was running longer than expected, all June 25 motions were carried to July 9, 1979 [Note: The criminal jury trial ended on July 6, 1979 when the jury were unable to agree upon a verdict; a mistrial was granted and retrial is set to begin on July 10, 1979].

The final judgment reserved, among other things, plaintiffs' earlier motion for the imposition of sanctions.

By separate orders to that end, each of those pending matters has been disposed of.

To the extent that limited time allows, additional views are set out in this Memorandum, though it is less complete than had been hoped in view of the facts that the number of active district judges is now two less than it was six years ago while the criminal and civil workload has sharply increased.

A. *The various expressions of "trade secrets", etc.*

The several federal statutes pertinent in this case use varying expressions on the subject. Perhaps the oldest, enacted in 1914 and not amended since, is the expression in 15 USC § 46(f), which authorizes the FTC to make public such portions of the information obtained by it as it shall deem expedient in the public interest, "except trade secrets and names of customers."

The next oldest, 18 USC § 1905 forbids disclosure of information obtained by a government official or employee (a) in the course of his employment, or (b) by reason of any examination or investigation made, or (c) by reason of any return, report or record made to or filed with government. Information so obtained may not be disclosed if it "concerns or relates to" trade secrets, processes, operations, style of work, or apparatus, or to the identity, confidential statistical data, amount or source of any income, profits, losses or expenditures, "to any extent not authorized by law."

Perhaps the newest is the F.O.I.A., 5 USC 552(b)(4), which speaks of "trade secrets and commercial or financial information obtained from a person and privileged or confidential."

In the context of this case, these variations of expression are not of moment. The decision here rests on the proposition and finding that the information contained in the disputed documents constitutes property entitled to protection against loss of the property interest by compelled submission to the agency and the consequent risk of loss of dissemination to a competitor or to the public.

For this purpose, it does not matter what descriptive label is put on a given piece of information. The test is not the label, but the nature of the data as proprietary.

Since rights of property arise by virtue of State law, and since property is constitutionally protected, none of the three branches of government may "take" it for private use, and may take it for public use only for just compensation. No statute, however phrased, may cut down these fundamentals.

In *Kewanee Oil*, 416 U.S. 470 (1974), the Supreme Court accepted the definition in Restatement of Torts § 759 (1939) as the most commonly accepted definition of the term "trade secrets" as encompassing confidential information which is not disclosed in the normal process of exploitation. And see *Aronson* v. *Quick Point*, ____ US ____, 99 S.Ct. 1096 (1979) where the information was necessarily disclosed by the marketing of the product itself.

By the definition of the Restatement, the term "trade secrets" includes lists of customers; the latter is one example of a trade secret. Proposed Fed. Ev. Rule 508, which is embodied in Fed. Ev. Rule 501, merely used the term "trade secrets"; it did not separately mention lists of customers or other items already within the definition.

Since the constitutional test is the existence of a property right to keep and use the information, this court employed the more appropriate term "proprietary information." The variety of kinds of trades and businesses is endless. No draftsman can hope to compile a complete list. No list is needed. If the information is carefully kept confidential, is disclosed only to those who need to know it for its application to the enterprise, and if open disclosure would be likely to cause harm to the enterprise by what would amount to unfair competition, it is proprietary regardless of the label.

B. *"Authorized by law"*

Both 18 USC § 1905 and 15 USC § 46(f) forbid disclosure of the contested documents. Nothing in 46(f) provides any authority for disclosure. In that light, the language of 16 CFR § 4.10 (1970) may be deceptive insofar as it suggests that the information may be made available on

an F.O.I.A. request or by the Commission on its own motion.

Similarly, defendants' representation at the hearing of May 7, 1979 (Tr. p. 27, l.21 to p. 29, l.7), appears to be incorrect. The text of 16 C.F.R. § 3.45 deals directly with in camera disclosures in formal proceedings before an administrative law judge. What is not understandable is the language that purports to reserve a right to disclose despite the in camera reception, without notice to the owner of the proprietary information. The court has found no statutory authority for those provisions in light of the flat prohibition of 15 USC § 46(f).

That the information in the contested documents is proprietary was established at trial, both by the testimony of witnesses and the inspection of samples by the court. It was so established not by a mere preponderance but by clear and convincing proof. Defendants chose not to examine the documents though made available to them, and chose not to offer any evidence to controvert the claim.

The court has been directed to no Act of Congress, and has found none by its own effort, that even suggests that disclosure of the proprietary information in suit is "authorized by law", even an unenforceable one that contravenes paramount law.

C. *The R.M.I. decision*

In the Supplemental Memorandum of May 23, 1979, received here May 25, 1979, defendants press the argument that a pre-delivery protective order is not necessary, and does not result in waiver, citing *U.S.* v. *R.M.I. Corp.*, No. 78-2691 (CA-3, 5/2/79). The decision does not support the argument for several reasons.

The first of these is that while a grand jury may be regarded as an arm of the executive branch for some purposes, the grand jury subpoena itself is issued by a court. For that reason, the Federal Evidence Rules apply, see Rule 1101(a) and (b). The exclusion of applicability to proceedings before grand juries, Rule 1101(d)(2) has rules with respect to privileges carved out of the exclusion, both by the opening phrase of Rule 1101(d) and by Rule 1101(c).

The second is that while the decision held that allowing of the privilege claim by intervention in a motion under Rule 16 was preferable to moving the question back to the investigative stage, it did not hold or suggest that the subpoenaed party could not raise the question at the investigative stage. In fact, in this District, privilege claims are in fact asserted at the investigative grand jury stage. They normally come before the court as miscellaneous matters that "walk in" as they arise. Such claims are not treated as "premature", but are decided. If the claim be valid, it is upheld. If it be valid but qualified, a suitable protective order is entered. It is only the procedures that must be adhered to before a witness can be coerced to comply by contempt that equate the grand jury subpoena with the administrative subpoena or summons.

Nothing in the RMI case suggests that the prudent owner of proprietary information sought by grand jury subpoena would not or should not be heard at the investigative stage. Mechanically, the matter is easily handled by the entry of a protective order, subject to further presentation and amendment at such time as a Rule 16 motion is presented. It may never arise. The grand jury may return "no bill".

The third, and perhaps most important reason, is that no issue of waiver (or risk of waiver) is discussed or decided in RMI.

In fact, the RMI case illustrates the danger of waiting, rather than on asserting the privilege and securing an appropriate protective order at the earliest stage, *i.e.* before turnover of the material. NL Industries was fortunate that it was given notice, nowhere expressly required, of the proposed turnover of its data to the indicted competitors pursuant to their request under Rule 16, F.R.Crim.P. Had the voluntary notice not been given, the material would have been disclosed to competitors and NL would have faced a much more difficult task in preventing improper use of it.

D. *The Chrysler decision*

The decision in *Chrysler* v. *Brown*, ____ U.S. ____ (1979) (on certiorari to this circuit) was looked to as a potential guide for this case. To some extent it is, but the questions presented were too narrow and confined, and many questions involved here were not involved. A number of points, however, are dealt with and are binding to that extent. These are as follows:

1. The Freedom of Information Act (FOIA), 5 USC § 552, is a "disclosure" statute. It mandates disclosure of agency record information coming within its scope at the request of any person making the request.

The 9 categories of information described in § 552(b), as amended, are carved out of the enacting clause which is § 552(a). This is clear from the opening phrase in § 552(b) that:

> "This section [§ 552] does not apply to matters that are * * *".

The *Chrysler* court makes it clear that the language of § 552(b), which lists the 9 categories, is not authority of itself for the withholding of information in those categories. The basis for withholding is to be found in other sources of law. At the same time, it follows that information coming within one or more of the 9 categories may not be obtained by virtue of the enacting clause of FOIA, § 552(a), unless the item is a qualification to the carving out process, as in the case of § 552(b)(7).

It is also noted that the *Chrysler* court did not address the significance of § 552(c), which states that:

> "This section does not authorize the withholding of information or limit the availablity of records to the public *except as specifically stated in this section.* * * *" (Emphasis added).

Just what the underscored phrase refers to will need to await a decision addressing that question. It may refer to exemption (b)(3), which encompasses matters specifically exempted from disclosure by statute (other than the "open meetings" law, 5 USC § 552(b)), so long as the statute requires withholding in such manner as to leave no discretion on the issue, or establishes particular criteria for withholding, or refers to particular types of matters to be withheld. There may be others.

What is involved here is the legislative technique of enacting a law by reference to another law. In some jurisdictions the legislative branch may not incorporate another law by reference. Thus in New Jersey, by amendment of 1875 to *N.J. Const.* 1844, Art. 4, § 7, par. 4, it was provided that:

> "No act shall be passed which shall provide that any existing law, or any part thereof, shall be made or

> deemed a part of the act or which shall enact that any existing law, or any part thereof, shall be applicable, except by inserting it in such act."

The same text was carried over into *N.J. Const.*, 1947, Art. 4, § 7, par. 5. The same concept was included in § 40 of the N.J. Evidence Act, 1960, NJSA 2A:84A-40 which, while authorizing court-promulgated rules to supercede existing statutes, required that such laws be expressly identified by official footnote to the Rule. And, see *Waterfront Comm'n*, 39 N.J. 436, at 454-456 (1963) applying this concept with approval. There is no similar restraint on the Congress.

In any event, the underscored phrase seems to mean, at least, that authority to disclose, if there be any, does not arise from the enacting clause § 552(a), for matters carved out of the Act by § 552(b).

2. Under this interpretation, the categories carved out by § 552(b) are not items that must be withheld from disclosure *by virtue of* § 552(b). Just as § 552(a) is no authority to disclose what falls within § 552(b), any requirement mandating withholding must be found elsewhere than in § 552(b).

3. The provisions of 18 USC § 1905, a criminal statute, while not one from which a private cause of action may be implied, does forbid disclosure of the kind of information it embraces, "to any extent not authorized by law." The command is broad enough to embrace information coming to an officer or employee of the U.S. "in the course of his employment or official duties," etc., without regard to the question whether the information is proprietary or not. Thus, information received in the course of government service, such as income, profits, losses or expenditures,

may not be disclosed even though the same information may appear in annual or quarterly reports by the submitter to its shareholders. What § 1905 forbids is the use of a government officer or employee as a *source* for providing the indicated categories of information. This is analogous to the attorney/client privilege, under which information given by the client to the attorney may not be obtained through the attorney, even in cases where the same information can be obtained (as by discovery) directly from the client.

4. Neither the provisions of 5 USC § 301 (the "housekeeping" statute) nor of Executive Order 11246 provided authority for rules and regulations having the force of "law", in respect to disclosure of information of a proprietary nature. Neither one modifies or satisfies 18 USC § 1905.

5. The agency regulations on which the claim of authority was grounded did not have the force of "law" because they were adopted without compliance with the requirements of the Administrative Procedure Act in the context of "legislative" or "substantive" rulemaking. 5 USC § 553.

6. The basis for the *Chrysler* suit was found under the Administrative Procedure Act, with jurisdiction under 28 USC § 1331. The expression in 5 USC § 706 (2)(F) was noted in reference to "trial de novo by the reviewing court", but the need for de novo reveiw was left open because it had not been addressed by the decision of the Court of Appeals.

E. *The motion for certification*

Defendants have moved to have this court certify its order of December 12, 1977 and the final judgment of

November 30, 1978 to the Court of Appeals under 28 USC § 1292 (b), in that the orders involve a controlling question of law, that there is substantial ground for difference of opinion, and that an immediate appeal may materially advance the ultimate determination of the litigation. Final judgment was docketed December 4, 1978.

The motion is denied for a number of compelling reasons.

One is that in cases where § 1292(b) applies, it merely opens the door to an interlocutory appeal, but leaves it to the discretion of the Court of Appeals whether to invite the party to proceed into the room, or whether to close the door until after final judgment. For this purpose, the application to allow an immediate appeal must be made to the Court of Appeals within 10 days of the [interlocutory] order. Far more than 10 days have passed since the entry of the subject orders. This court does not believe it should add needlessly to the burdens of an already overworked Court of Appeals by making a certification that cannot be acted upon.

Another is that § 1292(b) was never intended for the piecemeal appeal of interlocutory orders when the case has been completed and final judgment entered, as it has been in this case. Whether or not defendants have miscalculated their strategy is not a matter for this court to decide. A final judgment was filed November 30, 1978 and docketed December 4, 1978, and it was appealable. If defendants appealed only a part of that judgment so as to have lost their otherwise available right to have review, after final judgment, of all interlocutory orders in this case, that is a matter that is properly considered and decided by the Court of Appeals, but not by a trial court.

Still another is that the present motion seems calculated to give the impression that there was a bifurcated trial of some sort. That is not the case. All issues presented were heard and decided, and final judgment entered. This fact is not altered in any way by defendants' choice to instruct counsel not to examine the disputed documents made available to them. Those documents were made available, under protective order, not only for discovery and trial purposes in this case but also for the purposes of the non-public investigation which gave rise to this suit. That this strategy was knowingly, voluntarily and intelligently made is beyond dispute; the record here bears it out.

Nor is the fact altered in any way by the knowing, voluntary and intelligently made decision of defendants to instruct counsel to offer no proof at trial (except to mark in evidence the record of the proceedings in the enforcement and contempt suit in the District of Columbia, as support for the res judicata claim).

Judging from the submission and argument, defendants evidently seek to create a right to reopen the trial, examine the disputed documents, and renew the trial. This cannot be done. Trial was completed to the extent that both sides chose to offer evidence. Neither side has a unilateral right to refuse to participate in discovery, and refuse to offer evidence, and then, when unhappy with the outcome, insist on trying the case over again. This is precisely what defendants seek by the motion for certification.

In any event, even if defendants have successfully enlarged the time allowed to file Notice of Appeal by the motion to vacate and amend the final judgment, Rule 4(a), F.R.App.P., that is a question to be dealt with by the

Court of Appeals, not this court, particularly since a "notice of appeal" was filed January 29, 1979 (docketed January 31, 1979). It is for that Court to decide whether successful enlargement of time *bars* the filing of notice of appeal before that time has run. In any event, the motion to vacate and amend the Final Judgment has now been denied.

F. *Other matters*

There is no need to discuss the various decisions submitted to the court by defendants from time to time to as late as 5 PM on July 6, 1979.

Suffice it to say that none involves the kind of plenary action presented, heard and decided here. None discusses the difference between a plenary action to resolve an actual controversy, so that rights, duties and legal relations may be determined, in contrast to the very limited scope of "judicial review" (by way of the common law writ of certiorari in its effect), which would place it in the hands of administrative agencies to adjudicate property rights.

Of course, the problem arises largely because the statutes involved have been inacted independently of each other, with no evident thought to their interrelation, and each with a different and conflicting purpose or motive.

The practical solution, repeatedly suggested during this case, is for the agency to respect and honor claims of property interests in information submitted to them under the compulsion of law; to decline to disclose on request on that account; and if suit be brought by a requester, to counterclaim by way of interpleader and step out of the case.

Government agents obtaining proprietary data by compulsion are necessarily fiduciaries for the owner of that information. Their fiduciary duties oblige them to submit disputes to the courts, not to claim the right to decide them themselves.

s/ VINCENT P. BIUNNO,
U.S.D.J.

July 9, 1979

Original to Clerk
xc: CARPENTER, BENNETT & MORRISEY, ESQ.
CHRISTIANSEN, JUBE & KEEGAN, ESQ.
DONALD J. VOLKERT, JR. AUSA

EXHIBIT A

FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580

OFFICE OF THE SECRETARY

September 16, 1976

W. L. Wearly, Chairman
Ingersoll-Rand Company
200 Chestnut Ridge Road
Woodcliff Lake, N.J. 07675

File No. 751 0025

Dear Sir:

There is served herewith, by registered mail, a subpoena for appearance at the instance of the Federal Trade Commission at an investigational hearing (or deposition) in connection with the above indicated matter pursuant to the Nonadjudicative Procedures of the Commission (Subpart A of Part 2 of the Commission's Organization, Procedures and Rules of Practice, copy of which is enclosed).

The Commission representative in this matter, to whom any inquiry may be directed, is Mr. John Hoagland (202) 724-1423.

You will take notice that the delivery of this subpoena to you by registered mail is legal service and subjects you to the penalty imposed by law for failure to appear. You are advised that the Commission's Rules require that any motion to limit or quash a subpoena shall be filed within 10 days after date of service of the subpoena, or, if the return date is less than 10 days after service of the subpoena, within such other time as the Commission may allow. Ten copies of such motion shall be filed with the Secretary of the Federal Trade Commission and a copy

thereof shall at the same time be mailed to the Commission representative named in the paragraph above.

You will be entitled to the compensation regularly allowed Government witnesses for attendance. There is enclosed a blank voucher upon which to make your claim; such voucher, as well as the subpoena, must be brought with you.

Do not incur travel expense in obedience to the subpoena in excess of that required from the place to which the subpoena is addressed without first receiving authorization to do so, orally or in writing, from the Commission representative. If you are temporarily located or permanently residing at a place which would require such excess travel expense in order to obey the subpoena, you are directed promptly to notify the Commission representative; and if the representative fails or refuses to authorize such excess travel expense, you are directed to disregard the subpoena. You are also directed to disregard the subpoena if, for any reason, the Commission representative authorizes you to do so.

By direction of the Commission.

/s/ Charles A. Tobin
Charles A. Tobin
Secretary

Enclosures

§ 2.13 Noncompliance with investigational processes.—In cases of failure to comply with Commission investigational processes, appropriate action may be initiated by the Commission or the Attorney General, including actions for enforcement, forfeiture, or penalties or criminal actions.

F.T.C. 7538

SUBPOENA DUCES TECUM

UNITED STATES OF AMERICA
FEDERAL TRADE COMMISSION

To W. L. Wearly, Chairman
Ingersoll-Rand Company
200 Chestnut Ridge Road, Woodcliff Lake, N.J. 07675

You are hereby required to appear before John R. Hoagland
an Attorney and Examiner of
the Federal Trade Commission, at Room 932
425 13th Street, N.W.
in the City of Washington, D.C. 20004
on the 15th *day of* November, *19*76 *at* 10:00 a. *m.*,
to testify in the Matter of Ingersoll-Rand Company, et al.
File No. 751 0025

And you are hereby required to bring with you and produce at said time and place the following books, papers, and documents:
(See attached Specifications)

Fail not at your peril.

In testimony whereof, the undersigned, an authorized official of the Federal Trade Commission, has hereunto set his hand and caused the seal of said Federal Trade Commission to be affixed at Washington D.C., *this* 15 *day of* September, *19*76

SEP 24 1976

☐ By Hand ☐ By Mail

Alan K Palmer
Assistant Director, Bureau of Competition.

NOTICE TO WITNESS—If claim is made for witness fee or mileage, this subpoena should accompany voucher.

EXHIBIT R

Federal Trade Commission

Washington, D.C. 20580

Office of the Secretary August 12, 1977

Joseph W. Burns, Esquire
Burns, Van Kirk, Greene & Kafer
521 Fifth Avenue
New York, New York 10017

Re: Investigation of Ingersoll-Rand Co., et al., File No. 751 0025: Motion to Quash or Limit Subpoena Duces Tecum Issued to W. L. Wearly, Chairman, Ingersoll-Rand Company

Dear Mr. Burns:

This is in response to the motion of Ingersoll-Rand Company and W. L. Wearly, its chairman, to quash or limit the above-described subpoena. Taking note of the lengthy course of negotiation over the terms of compliance with this subpoena, and the partial fulfillment of its requests[1], the Commission has decided to grant the motion in part and deny it in part. The Commission has modified, clarified, and limited the subpoena to read as shown in the Appendix hereto. In all other respects, the Commission denies the motion, having made the following determinations with regard to the issues raised:

1. The Commission, in resolving to iitiate this investigation, authorized an examination of possible "unfair methods of competition in *or affecting* commerce

1 Specifications One, Two, and Six have been met, and some documents have been suppiied in response to additional specifications.

in the United States" in violation of section 5 of the FTC Act or section 7 of the Clayton Act, "by means of joint venture(s), stock or asset acquisition(s) and/or agreement(s) or combination(s) in restraint of trade in *or affecting* the manufacture, sale or distribution of needle roller bearings or loose needle rollers in the United States." (Emphasis added.) Contrary to movant's assertion, investigated practices are thus not limited to the territorial confines of the United States. Anticompetitive acts implicating members of the U.S. needle roller bearing (hereinafter "NRB") market may certainly involve foreign subsidiaries, joint ventures, and affiliates of such companies, and the Commission's resolution of May 13, 1976 cites proper authority for and gives full notice of the Commission's use of compulsory process to require the production of documents pertaining thereto.

Nor is the fact that certain subpoenaed documents may be reposited in foreign sites an impediment to Commission process, either under general principles of federal law or the FTC Act. *United States* v. *First National City Bank of New York*, 396 F.2d 897, 900-01 (2d Cir. 1968); *In Re Grand Jury Subpoenas Duces Tecum Addressed to Canadian International Paper Co.*, 72 F. Supp. 1013, 1020 (S.D.N.Y. 1947). *FMC* v. *DeSmedt*, 366 F.2d 464, 468-71 (2d Cir.), *cert. denied*, 385 U.S. 974 (1966)[2]; *SEC v. Minas de Artemisa*, 150 F.2d 215, 217-18 (9th Cir. 1945). In fact,

2 In *DeSmedt*, Judge Friendly thoroughly reviewed the legislative history of the phrase "from any place in the United States," and, realizing that his interpretation would apply to identical language appearing in § 9 of the FTC Act and elsewhere, concluded that "the Federal Maritime Commission, like the Interstate Commerce Commission, the other federal agencies, and the federal courts, can require a resident by subpoena to produce documents under his control wherever they are located." *FMC* v. *DeSmedt*, *supra*, 366 F.2d at 471.

the Commission has secured the enforcement of an investigational subpoena requesting foreign documents. *FTC* v. *Intercontinental Diversified Corp.*, Misc. Action No. 75-77 (D.D.C. June 2, 1975) (documents of Panamanian corporation, kept in Grand Bahama Island office).

Finally, the Commission is not persuaded that movant lacks sufficient control over its subsidiary NSK-Torrington to accomplish return of specifications dealing with the latter company. (See letter from Joseph W. Burns, Esquire, to Edmund B. Frost, Assistant Director, FTC Bureau of Competition, at 5 and 9 (May 10, 1977)). Ingersoll-Rand, through its wholly-owned subsidiary Torrington, owns 48% of the outstanding stock of NSK-Torrington, a company incorporated under the laws of Japan. (See letter from Joseph W. Burns, Esquire, to John R. Hoagland, attorney, FTC Bureau of Competition, at 4 (December 16, 1976)). Numerous cases have required a parent corporation to produce documents in the posession of its subsidiaries and affiliates, including those situated abroad. See, e.g., *American Industrial Contracting, Inc.* v. *Johns-Manville Corp.*, 362 F. Supp. 879, 880 (W.D. Pa. 1971); *George Hantscho Co., Inc.* v. *Miehle-Goss-Dexter, Inc.*, 33 F.R.D. 332, 334-35 (S.D.N.Y. 1963); *United States* v. *Standard Oil Co. (N.J.)*, 23 F.R.D. 1, 3-5 (S.D.N.Y. 1958). See also W. Fugate, *Foreign Commerce and the Antitrust Laws*, 114-18 (2d ed. 1973); 8 Wright & Miller, *Federal Practice and Procedure*, § 2210 at 622-23 (1970). One court found enough control in a 44% stock interest to order production by that shareholder. *Societe Internationale Pour Participations Industrielles et Commerciales, S.A.* v. *Clark*, 9 F.R.D. 263, 265

(D.D.C. 1949). See *Societe Internationale Pour Participations Industrielles et Commerciales, S.A.* v. *McGranery*, 111 F. Supp. 435, 440-42 (D.D.C. 1953), *aff'd sub nom. Societe Internationale Pour Participations Industrielles et Commerciales, S.A.* v. *Brownell*, 225 F.2d 532 (D.C. Cir. 1955), *cert. denied*, 350 U.S. 937 (1956).[3] If movant can reach the subpoenaed records for its own use, it must produce them in response to the Commission's subpoena. See *First National City Bank of New York* v. *IRS*, 271 F.2d 616, 618 (2d Cir. 1959), *cert. denied*, 361 U.S. 948 (1960). Where the Japanese Commercial Code grants to 10% or greater shareholders the right to inspect the corporation's books and records[4], and where Ingersoll-Rand (through Torrington) has additional access and copying rights to NSK-Torrington documents[5], the Commission must conclude that movant can comply with the subpoena.

2. The Commission may compel the production of materials which are reasonably relevant to the inquiry it is conducting. *United States* v. *Morton Salt Co.*, 338 U.S. 632, 642-43, 652 (1950); *FTC* v. *Texaco, Inc.*, No. 74-1547, slip op. at 20-25 (D.C. Cir. Feb. 23, 1977), *clarified by Orders of March 24, 1977, and*

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3 As small an amount as 3% equity ownership has been held to constitute "controlling influence." *Transit Investment Corp.*, 23 S.E.C. 415 (1946), cited in *Phillips* v. *SEC*, 388 F.2d 964, 972 (2d Cir. 1968).

4 Article 293-6, Shoho (Commercial Code), Law No. 167 (May 10, 1950). See *Kabushiki Kaisha Ho Jiten* (Stock Corporation Dictionary) 247 (S. Tanaka ed., 1970); M. Yazawa, "The Legal Structure for Corporate Enterprise: Shareholder-Management Relations Under Japanese Law," *Law in Japan*, 561 (A. von Mehren ed., 1963).

5 [NSK-Torrington] Formation Agreement of March 3, 2962, article IX; Technological Assistance Agreement of November 16, 1962; article VIII.

May 11, 1977, cert. denied, 45 U.S.L.W. 3805 (June 14, 1977). The Commission is satisfied that all of the subpoena's specifications, as clarified and modified, meet that standard of reasonable relevance to the investigational purposes announced in the Commission's resolution of May 13, 1976.

3. In order to justify the non-enforcement of an investigative subpoena, the subpoenaed party must demonstrate, not merely that the subpoena is burdensome, but that it imposes an *undue* burden. *FTC* v. *Texaco*, *supra*, at 39. See *Oklahoma Press Publishing Co.* v. *Walling*, 327 U.S. 186, 208 (1946). Where Ingersoll-Rand has supported claims of ambiguity or unnecessary burden the Commission has clarified, modified, and limited the subpoena, recognizing, of course, that some burden and expense are necessary to achieve the legitimate goals of this investigation. See *Oklahoma Press*, *supra*, 327 U.S. at 217; *Texaco*, *supra*, at 40; *Genuine Parts Co.* v. *FTC*, 313 F. Supp. 855, 859 (N.D. Ga. 1970), *aff'd*, 445 F.2d 1382, 1391 (5th Cir. 1971). Most of movant's objections have thereby been mooted. To the extent others survive, they are insufficient to sustain a showing of undue burdensomeness.

Ingersoll-Rand raises burden objections to specifications 9, 13, 14, 16 and 20. The revised specification 9 has clearly eliminated documents pertaining to movant's acquisition of Torrington. All other documents requested by that specification appear to be highly relevant to this investigation and must be produced. Specifications 13 and 14 will be met if documents at the top management level, *viz.*, officers and directors, are produced where the term "managerial" is used. With respect to the demand in specification

16 for materials filed with the U.S. Department of the Treasury, staff is prepared to negotiate arrangements for their inspection and copying at an Ingersoll-Rand office. Producing the limited number of documents which refer to NRB and have been filed with the other named authorities in specification 16 should not be overly burdensome. Finally, movant's complaint about the scope of specification 20 misperceives the request: it calls for studies and analyses, not every paper which might "refer or discuss in some way the possibility or desirability of adding new facilities." (May 10, 1977, letter, *supra*, at 9). As properly interpreted, the specification is not oppressive.

Neither is the subpoena unduly burdensome because of breadth. All but three specifications have been limited to movant's proposed time frame. The remaining three have been reduced in scope to the minimum necessary to evaluate properly the matters under investigation at this point. Courts have approved lengthy subpoena time spans in investigations of possible long-standing antitrust violations. See *Adams* v. *FTC*, 296 F.2d 861, 867 (8th Cir. 1961), *cert. denied*, 369 U.S. 864 (1962).

4. The Commission may properly require the production of confidential information, including trade secrets. *FTC* v. *Tuttle*, 244 F.2d 605, 616 (2d Cir.), *cert. denied*, 354 U.S. 925 (1957). Section 6(f) of the FTC Act prohibits the publication of trade secrets and names of customers, but this section places no restrictions on subpoenaing such information from any parties who have it or transferring it to the Congress or other federal agencies, which actions do not constitute publication. See *Ashland Oil, Inc.* v. *FTC*, 548 F.2d 977 (D.C. Cir. 1976); *Exxon Corp.* v. *FTC*, 1977-1 Trade Cas. (CCH) ¶ 61,464 (D. Del. April 18,

1977); *Exxon Corp.* v. *FTC*, No. 76-0812, *Union Carbide Corp.* v. *FTC*, No. 76-0793, and *Kerr-McGee Corp.* v. *FTC*, No. 76-0814, slip op. at 1 (D.D.C. March 29, 1977), *appeals filed*. The recent *Texaco* decision upheld the adequacy of the Commission's confidentiality assurances. *Texaco*, *supra*, at 43-44.[6]

Recognizing, however, that movant may have a legitimate concern about the sensitivity of certain subpoenaed documents, the Commission will consider an application by Ingersoll-Rand for Commission assurances of confidential treatment, which describes with particularity the documents for which such treatment is sought and provides adequate factual grounds to support the application.[7]

The motion having been granted in part and denied in part, full compliance with the subpoena, as modified, is hereby directed. Return shall be made at the hour and place specified in the subpoena on September 12, 1977.

By direction of the Commission.

/s/ Carol M. Thomas
(Mr.) Carol M. Thomas
Secretary

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

cc: Ingersoll-Rand Company
200 Chestnut Ridge Road
Woodcliff Lake, New Jersey 07675

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

---

6 Further supporting the protection the Commission is able to afford confidential documents is § 10 of the FTC Act, which contains criminal penalties for improper disclosure of information in the Commission's possession.

7 Such a request will not, however, stay movant's obligation to comply with the subpoena.

EXCERPT FROM SEPTEMBER 8, 1977
HEARING TRANSCRIPT IN
WEARLY v. *FTC*, 77 Civ. 1860 (D.N.J.)

From Page 22, Line 12, thereof
To Page 26, Line 26

THE COURT: You also have criminal provisions, don't you? They don't turn on that, do they?

MR. HAASE: I don't want to separate the confidentiality provisions from the other issue—

THE COURT: In this case, as I understand it from the argument, if a subpoena is served, a date is fixed, the witness fails to comply with the subpoena, even though he is claiming confidentiality, trade secret as to one or more items, he is exposed to the risk of criminal prosecution.

MR. HAASE: Your Honor, the Supreme Court has held unequivocally that if the defendant produces—if the defendant interposes a good faith defense to a subpoena or to a summons, then the—no criminal penalties can attach.

THE COURT: Can he be charged and prosecuted and subjected to the risk of trial even though he's acquitted?

MR. HAASE: Under the case of—

THE COURT: Would you get an automatic dismissal or would they have to first pass on the questions of trade secret in the criminal trial? Suppose he's wrong?

MR. HAASE: I think it is subject to a motion to dismiss.

THE COURT: Suppose he claims something to be a trade secret and it is decided it is not a trade secret. Then he's stuck with a conviction, isn't he? The issue whether the item is a trade secret or not is in dispute. He makes the claim, the FTC resists it.

He's prosecuted for failing to honor the subpoena. He is in jeopardy of going to jail if he's wrong, isn't he?

MR. HAASE: No.

THE COURT: Why not?

MR. HAASE: Because if he interposes what he believes is a good faith defense, even if the defense is not sustained in trial, nonetheless if it is a good faith defense, then he cannot be prosecuted.

THE COURT: Is that subjective good faith or objective good faith?

MR. HAASE: Well, let me quote from—

THE COURT: In other words, what a witness may think is good faith and what a jury may think is good faith could be two different things, couldn't they?

MR. HAASE: In the case of Reisman v. Caplin, 375 U.S. 440, which involved a summons, an IRS summons, the Court reached this issue, and it said the statute, on its face, does not apply where the witness appears and interposes good faith challenges to the summons. It only prescribes punishment where the witness "neglects" either to appear or produce.

The Federal Trade Commission statute uses the identical language.

Continuing, we need not pass upon the coverage of this provision in light of the facts here. It is sufficient to say that non-compliance is not subject to prosecution there under when the summons is attacked in good faith.

This case—

THE COURT: What do they mean by good faith? Is it subjective or objective?

MR. HAASE: I think good faith necessarily is subjective, yes.

THE COURT: What? In other words, all he has to do is say I'm doing this in good faith and you're stuck. You have to take his word for it? Subjective on the part of the witness I'm talking about.

MR. HAASE: What the witness says and what the witness believes are both subjective. I don't think the court is necessarily stuck with what the witness says.

THE COURT: Then he is in jeopardy if his belief is not accepted as having been in good faith, even though he may feel so.

MR. HAASE: That's correct. On the other hand, there has never been a prosecution under Section 10 of the Federal Trade Commission Act in the entire 64 years in which the statute has been on the books.

So we are talking about a very remote possibility, assuming that the defendant's good faith is really subject to challenge.

We have no reason to believe that the defenses that the plaintiffs in this case interpose are not made in good faith.

Now, the Reisman case has been held controlling in Federal Trade Commission— in the case of the Federal Trade Commission Act. Cases in the DC Circuit, in the Second Circuit, in the Fifth Circuit, in the Eighth Circuit all have held that the Reisman rationale equally applies in the case of the Federal Trade Commission Act. That is that criminal penalties may not attach—

THE COURT: We are not arguing the preliminary injunction today, you know.

MR. HAASE: They are claiming they need a TRO because they are going to be subject to criminal penalties.

THE COURT: That's one item.

MR. HAASE: That's the only item that if it is true could possibly support a TRO.

The question of the confidentiality of the documents is a matter which is perfectly within their control, because if they decline to comply with the subpoena, the Federal Trade Commission obviously can't disclose anything.

The only time the Federal Trade Commission would even be in a position to make any disclosures is after it seeks enforcement in a subpoena enforcement proceeding.

THE COURT: It has been said where there is a dispute, particularly between citizens and Government agencies, the civilized technique is not to have that confrontation but to use the declaratory judgment and get it answered first.

Doesn't that make sense? Why should there be an enforcement proceeding? Why should the more drastic remedy be used when, if the parties are in disagreement as to what the law is, what the facts are, they have somebody else decide it first.

EXCERPT FROM OCTOBER 19, 1977 HEARING TRANSCRIPT IN *WEARLY* v. *FTC*, 77 Civ. 1860 (D.N.J.)

From Page 303, Line 23 thereof
To Page 304, Line 20.

THE COURT: The question for the application for preliminary injunction, is considered on that aspect alone.

Part of the dispute arises from the fact that while the trade secrets are the property of IR, which is designated as the subject of the non-public investigation order, the subpoena is directed to and was served on Wearly rather than IR.

In particular, Wearly claims to be in jeopardy of criminal prosecution under 15 U.S. Code section 50, first paragraph; a risk that the parties seem to agree would not apply if the subpoena had been directed to IR.

While reported decisions on the subject are scanty, the jeopardy evidently can be real, as shown by the conviction of Mr. Austin Tobin, for contempt of Congress, U.S. vs. Tobin, 195 F Sup 588, District DC, 1961, reversed on other grounds, Tobin vs. U.S., 306 F 2nd 270, Court of Appeals, DC, 1962, certiorari denied, 1962.

FTC argues, among other things, that no criminal prosecution appears to have been made under 15 U.S. Code Section 50, but it is understandable that Mr. Wearly prefers not to be the first to be so charged.

For him the impact in that case would be 100 percent.

EXCERPT FROM OCTOBER 19, 1977
HEARING TRANSCRIPT IN
WEARLY v. *FTC*, 77 Civ. 1860 (D.N.J.)

Page 314 From Lines 1 to 14.

THE COURT: So much having been said, it remains for the Court to deal with the request for preliminary injunction. That there is jurisdiction seems clear in light of the *Abbott Laboratories* trilogy and the *A. O. Smith* case in this Circuit. That there is venue seems also to be clear in view of the fact that it is IR as the owner of the trade secrets, which is the real party in interest, and it is a citizen and resident in this District.

It is also clear that there is a threat of irreparable harm. The irreparable aspect arises from the sheer impossibility of developing a measure of damages for improper dissemination. It is not the amount of damage but the impossibility of ascertaining damages in monetary terms that make them irreparable.

Senate Report 96-500
96th Congress, 1st Session
ENFORCEMENT AUTHORITY

Section 6.—Section 6 eliminates the threat of criminal sanctions applied to those recipients of a Commission subpena who in good faith resist Commission subpenas by making such sanctions inapplicable prior to a judicial order of enforcement. This is similar to the procedures applicable to the enforcement of the subpenas of several other administrative agencies, and it accords the persons who are subjected to a broad investigatory subpena a reasonable opportunity to obtain judicial review of its legality.

at 15-16

SECTION 10 OF THAT ACT

Sec. 10. * * *

[Any person who shall neglect or refuse to attend and testify, or to answer any lawful inquiry or to produce documentary evidence, if in his power to do so, in obedience to the subpoena or lawful requirement of the commission, shall be guilty of an offense and upon conviction thereof by a court of competent jurisdiction shall be punished by a fine of not less than $1,000 nor more than $5,000, or by imprisonment for not more than one year, or by both such fine and imprisonment.]

Any person who shall neglect or refuse to attend and testify, or to answer any lawful inquiry, or to produce any documentary evidence, if in his power to do so, in obedience to an order of the a United States district court directing compliance with the subpena or lawful requirement of the Commission, shall be guilty of an offense and upon conviction thereof by a court of competent jurisdic-

tion shall be punished by a fine of not less than $1,000 nor more than $5,000, or by imprisonment for not more than 1 year, or both such fine and imprisonment.".

Any person who shall willfully make or cause to be made, any false entry or statement of fact in any report required to be made under this Act, or who shall willfully make, or cause to be made, any false entry in any account, record, or memorandum kept by any person, partnership, or corporation subject to this Act, or who shall willfully neglect or fail to make, or cause to be made, full, true, and correct entries in such accounts, records, or memoranda of all facts and transactions appertaining to the business of such person, partnership, or corporation, or who shall willfully remove out of the jurisdiction of the United States, or willfully mutilate, alter or by any other means falsify any documentary evidence of such person, partnership, or corporation, or who shall willfully refuse to submit to the commission or to any of its authorized agents, for the purpose of inspection and taking copies, any documentary evidence of such person, partnership, or corporation in his possession or within his control, shall be deemed guilty of an offense against the United States, and shall be subject upon conviction in any court of the United States of competent jurisdiction, to a fine of not less than $1,000 nor more than $5,000, or to imprisonment for a term of not more than three years, or to both such fine and imprisonment.

at 37-38

Senate Report 95-197,
95th Congress, 1st Session

Section 8. Penalties for noncompliance with compulsory process

Section 8 of the bill relates to civil penalties for noncompliance with compulsory process. Under present law, the FTC may issue a subpoena to secure information in a law enforcement action or issue a compulsory process order requiring companies to file annual or special business reports. Failure to comply enables the Commission to sue for enforcement of its order. In addition, the Act provides for civil penalties for the failure to comply with an FTC order to file an annual or special report. However, exising law does not provide for civil penalties for failure to comply with a subpoena. In such cases, the Commission may only seek criminal penalties against individuals and, because of the extreme nature of such penalties, this authority has never been used by the Commission.

at 5-6

United States Constitution, Amendment V

> . . . nor shall private property be taken for public use, without just compensation.

Section 6, Federal Trade Commission Act
15 U.S.C. § 46

> § 46. Additional powers of Commission
>
> The Commission shall also have power—
>
> * * * * *
>
> (f) To make public from time to time such portions of the information obtained by it hereunder, except trade secrets and names of customers, as it shall deem expedient in the public interest; and to make annual and special reports to the Congress and to submit therewith recommendations for additional legislation; and to provide for the publication of its reports and decisions in such form and manner as may be best adapted for public information and use.

Section 9, Federal Trade Commission Act
15 U.S.C. § 49

> § 49. *Documentary evidence; depositions; witnesses*

For the purposes of sections 41 to 46 and 47 to 58 of this title the Commission, or its duly authorized agent or agents, shall at all reasonable times have access to, for the purpose of examination, and the right to copy any documentary evidence of any person, partnership, or corporation being investigated or proceeded against; and the

Commission shall have power to require by subpoena the attendance and testimony of witnesses and the production of all such documentary evidence relating to any matter under investigation. Any member of the Commission may sign subpoenas, and members and examiners of the Commission may administer oaths and affirmations, examine witnesses, and receive evidence.

Such attendance of witnesses, and the production of such documentary evidence, may be required from any place in the United States, at any designated place of hearing. And in case of disobedience to a subpoena the Commission may invoke the aid of any court of the United States in requiring the attendance and testimony of witnesses and the production of documentary evidence.

Any of the district courts of the United States within the jurisdiction of which such inquiry is carried on may, in case of contumacy or refusal to obey a subpoena issued to any person, partnership, or corporation issue an order requiring such person, partnership, or corporation to appear before the Commission, or to produce documentary evidence if so ordered, or to give evidence touching the matter in question; and any failure to obey such order of the court may be punished by such court as a contempt thereof.

Upon the application of the Attorney General of the United States, at the request of the Commission, the district courts of the United States shall have jurisdiction to issue writs of mandamus commanding any person, partnership, or corporation to comply with the provisions of sections 41 to 46 and 47 to 58 of this title or any order of the Commission made in pursuance thereof.

The Commission may order testimony to be taken by deposition in any proceeding or investigation pending un-

der said sections at any stage of such proceeding or investigation. Such depositions may be taken before any person designated by the Commission and having power to administer oaths. Such testimony shall be reduced to writing by the person taking the deposition, or under his direction, and shall then be subscribed by the deponent. Any person may be compelled to appear and depose and to produce documentary evidence in the same manner as witnesses may be compelled to appear and testify and produce documentary evidence before the Commission as hereinbefore provided.

Witnesses summoned before the Commission shall be paid the same fees and mileage that are paid witnesses in the courts of the United States, and witnesses whose depositions are taken and the persons taking the same shall severally be entitled to the same fees as are paid for like services in the courts of the United States.

Section 10, Federal Trade Commission Act
15 U.S.C. § 50

§ 50 *Offenses and penalties*

Any person who shall neglect or refuse to attend and testify, or to answer any lawful inquiry or to produce documentary evidence, if in his power to do so, in obedience to the subpoena or lawful requirement of the Commission, shall be guilty of an offense and upon conviction thereof by a court of competent jurisdiction shall be punished by a fine of not less than $1,000 nor more than $5,000, or by imprisonment for not more than one year, or by both such fine and imprisonment.

Any person who shall willfully make, or cause to be made, any false entry or statement of fact in any report required to be made under sections 41 to 46 and 47 to 58 of

this title, or who shall willfully make, or cause to be made, any false entry in any account, record, or memorandum kept by any person, partnership, or corporation subject to said sections, or who shall willfully neglect or fail to make, or to cause to be made, full, true, and correct entries in such accounts, records, or memoranda of all facts and transactions appertaining to the business of such person, partnership, or corporation or who shall willfully remove out of the jurisdiction of the United States, or willfully mutilate, alter, or by any other means falsify any documentary evidence of such person, partnership, or corporation or who shall willfully refuse to submit to the Commission or to any of its authorized agents, for the purpose of inspection and taking copies, any documentary evidence of such person, partnership, or corporation in his possession or within his control, shall be deemed guilty of an offense against the United States, and shall be subject, upon conviction in any court of the United States of competent jurisdiction, to a fine of not less than $1,000 nor more than $5,000, or to imprisonment for a term of not more than three years, or to both such fine and imprisonment.

The Trade Secrets Act
18 U.S.C. § 1905

§ 1905. *Disclosure of confidential information generally*

Whoever, being an officer or employee of the United States or of any department or agency thereof, publishes, divulges, discloses, or makes known in any manner or to any extent not authorized by law any information coming to him in the course of his employment or official duties or by reason of any examination or investigation made by, or return, report or record made to or filed with, such depart-

ment or agency or officer or employee thereof, which information concerns or relates to the trade secrets, processes, operations, style of work, or apparatus, or to the identity, confidential statistical data, amount or source of any income, profits, losses, or expenditures of any person, firm, partnership, corporation, or association; or permits any income return or copy thereof or any book containing any abstract or particulars thereof to be seen or examined by any person except as provided by law, shall be fined not more than $1,000, or imprisoned not more than one year, or both; and shall be removed from office or employment.

June 25, 1948, c. 645, 62 Stat. 791.

Section 10 Administrative Procedure Act
5 U.S.C. § 701

§ 701. *Application; definitions*

(a) This chapter applies, according to the provisions thereof, except to the extent that—

(1) statutes preclude judicial review; or

(2) agency action is committed to agency discretion by law.

(b) For the purpose of this chapter—

(1) "agency" means each authority of the Government of the United States, whether or not it is within or subject to review by another agency, but does not include—

(A) the Congress;

(B) the courts of the United States;

(C) the governments of the territories or possessions of the United States;

(D) the government of the District of Columbia;

(E) agencies composed of representatives of the parties or of representatives of organizations of the parties to the disputes determined by them;

(F) courts martial and military commissions;

(G) military authority exercised in the field in time of war or in occupied territory; or

(H) functions conferred by sections 1738, 1739, 1743, and 1744 of title 12; chapter 2 of title 41; or sections 1622, 1884, 1891-1902, and former section 1641(b)(2), of title 50, appendix; and

(2) "person", "rule", "order", "license", "sanction", "relief", and "agency action" have the meanings given them by section 551 of this title.

5 U.S.C. § 702

§ 702. *Right of review*

A person suffering legal wrong because of agency action, or adversely affected or aggrieved by agency action within the meaning of a relevant statute, is entitled to judicial review thereof. An action in a court of the United States seeking relief other than money damages and stating a claim that an agency or an officer or employee thereof acted or failed to act in an official capacity or under color of legal authority shall not be dismissed nor relief therein be denied on the ground that it is against the United States or that the United States is an indispensable party. The United States may be named as a defen-

dant in any such action, and a judgment or decree may be entered against the United States: *Provided*, That any mandatory or injunctive decree shall specify the Federal officer or officers (by name or by title), and their successors in office, personally responsible for compliance. Nothing herein (1) affects other limitations on judicial review or the power or duty of the court to dismiss any action or deny relief on any other appropriate legal or equitable ground; or (2) confers authority to grant relief if any other statute that grants consent to suit expressly or impliedly forbids the relief which is sought.

5 U.S.C. § 703

§ 703. *Form and venue of proceeding*

The form of proceeding for judicial review is the special statutory review proceeding relevant to the subject matter in a court specified by statute or, in the absence or inadequacy thereof, any applicable form of legal action, including actions for declaratory judgments or writs of prohibitory or mandatory injunction or habeas corpus, in a court of competent jurisdiction. If no special statutory review proceeding is applicable, the action for judicial review may be brought against the United States, the agency by its official title, or the appropriate officer. Except to the extent that prior, adequate, and exclusive opportunity for judicial review is provided by law, agency action is subject to judicial review in civil or criminal proceedings for judicial enforcement.

5 U.S.C. § 704

§ 704. *Actions reviewable*

Agency action made reviewable by statute and final agency action for which there is no other adequate remedy

in a court are subject to judicial review. A preliminary, procedural, or intermediate agency action or ruling not directly reviewable is subject to review on the review of the final agency action. Except as otherwise expressly required by statute, agency action otherwise final is final for the purposes of this section whether or not there has been presented or determined an application for a declaratory order, for any form of reconsideration, or, unless the agency otherwise requires by rule and provides that the action meanwhile is inoperative, for an appeal to superior agency authority.

5 U.S.C. § 705

§ 705. *Relief pending review*

When an agency finds that justice so requires, it may postpone the effective date of action taken by it, pending judicial review. On such conditions as may be required and to the extent necessary to prevent irreparable injury, the reviewing court, including the court to which a case may be taken on appeal from or on application for certiorari or other writ to a reviewing court, may issue all necessary and appropriate process to postpone the effective date of an agency action or to preserve status or rights pending conclusion of the review proceedings.

5 U.S.C. § 706

§ 706. *Scope of review*

To the extent necessary to decision and when presented, the reviewing court shall decide all relevant questions of law, interpret constitutional and statutory provisions, and determine the meaning or applicabililty of the terms of an agency action. The reviewing court shall—

(1) compel agency action unlawfully withheld or unreasonably delayed; and

(2) hold unlawful and set aside agency actions, findings, and conclusions found to be—

(A) arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law;

(B) contrary to constitutional right, power, privilege, or immunity;

(C) in excess of statutory jurisdiction, authority, or limitations, or short of statutory right;

(D) without observance of procedure required by law;

(E) unsupported by substantial evidence in a case subject to sections 556 and 557 of this title or otherwise reviewed on the record of an agency hearing provided by statute; or

(F) unwarranted by the facts to the extent that the facts are subject to trial de novo by the reviewing court.

In making the foregoing determinations, the court shall review the whole record or those parts of it cited by a party, and due account shall be taken of the rule of prejudicial error.

JUDICIAL CODE OF THE UNITED STATES

28 U.S.C. § 1331

§ 1331. *Federal question; amount in controversy; costs*

(a) The district courts shall have original jurisdiction of all civil actions wherein the matter in controversy exceeds the sum or value of $10,000, exclusive of interest and costs, and arises under the Constitution, laws, or treaties of the United States except that no such sum or value shall be required in any such action brought against the United States, any agency thereof, or any officer or employee thereof in his official capacity.

(b) Except when express provision therefor is otherwise made in a statute of the United States, where the plaintiff is finally adjudged to be entitled to recover less than the sum or value of $10,000, computed without regard to any setoff or counterclaim to which the defendant may be adjudged to be entitled, and exclusive of interests and costs, the district court may deny costs to the plaintiff and, in addition, may impose costs on the plaintiff.

As amended Oct. 21, 1976, Publ.L 94-574, § 2, 90 Stat. 2721.

28 U.S.C. § 1337. *Commerce and anti-trust regulations*

The district courts shall have original jurisdiction of any civil action or proceeding arising under any Act of Congress regulating commerce or protecting trade and commerce against restraints and monopolies.

June 25, 1948, c. 646, 62 Stat. 931.

DECLARATORY JUDGMENT ACT

28 U.S.C. § 2201 (1979)

§ 2201. *Creation of remedy*

In a case of actual controversy within its jurisdiction, except with respect to Federal taxes other than actions brought under section 7428 of the Internal Revenue Code of 1954, or a proceeding under section 505 or 1146 of title 11 any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought. Any such declaration shall have the force and effect of a final judgment or decree and shall be reviewable as such.

28 U.S.C. § 2201 (1979)

§ 2201. *Further relief*

Further necessary or proper relief based on a declaratory judgment or decree may be granted, after reasonable notice and hearing, against any adverse party whose rights have been determined by such judgment.

Supreme Court, U. S.
FILED
JUL 10 1980
MICHAEL RODAK, JR., CLERK

No. 79-1653

In the Supreme Court of the United States

OCTOBER TERM, 1979

W. L. WEARLY, ET AL., PETITIONERS

v.

FEDERAL TRADE COMMISSION, ET AL.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

BRIEF FOR THE FEDERAL TRADE COMMISSION IN OPPOSITION

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ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

BRIEF FOR THE FEDERAL TRADE COMMISSION IN OPPOSITION

QUESTION PRESENTED

When Congress has prescribed a procedure by which objections to Federal Trade Commission subpoenas can be raised without risk in an enforcement hearing in the district court, whether subpoena recipients may bypass that procedure by filing a collateral action for preenforcement review.

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*In addition to the parties named in the caption in this Court, the individual members of the Federal Trade Commission were co-parties with the Commission in the courts below. Ingersoll-Rand Company and The Torrington Company were also co-parties with W.L. Wearly in the lower courts.

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FTC v. *Rockefeller*, 441 F. Supp. 234, aff'd, 591 F. 2d 182 3

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Reisman v. *Caplin*, 375 U.S. 440 ..... 5, 6, 10

St. Regis Paper Co. v. *United States*, 368 U.S. 208 11

Toilet Goods Ass'n v. *Gardner*, 387 U.S. 158 5

Statutes:

Administrative Procedure Act, 5 U.S.C. 701-706 1

Federal Trade Commission Act, 15 U.S.C. 41 *et seq.*, as amended by the Federal Trade Commission Improvements Act of 1980, Pub. L. No. 96-252, 94 Stat. 374:

Section 5, 15 U.S.C. 45 2

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Section 6(d), 15 U.S.C. 46(d) 7

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Section 21(b)(6), 94 Stat. 386 ..... 8, 5a-6a
Section 21(f), 94 Stat. 388 ..... 7, 9a
Federal Trade Commission Improvements Act of 1980, Pub. L. No. 96-252, 94 Stat. 374 *et seq.* 1, 6, 1a
Section 3(a), 94 Stat. 374 ..... 3, 1a
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Section 6, 94 Stat. 376 ..... 12, 2a
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Freedom of Information Act, 5 U.S.C. 552 *et seq.* 7

Miscellaneous:

126 Cong. Rec. S5678 (daily ed. May 21, 1980) 9
45 Fed. Reg. 36338 (1980) 3
S. Rep. No. 500, 96th Cong., 1st Sess. (1979) 9

OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1a-14a), as amended (Pet. App. 15a-19a), is reported at 616 F. 2d 662. The principal opinion of the district court (Pet. App. 52a-88a) is reported at 462 F. Supp. 589. Two subsequent opinions of the district court (Pet. App. 93a-109a, 110a-123a) are unreported.

JURISDICTION

The judgment of the court of appeals was entered on February 8, 1980. A petition for rehearing was denied on March 20, 1980 (Pet. App. 16a-19a). The petition for a writ of certiorari was filed on April 18, 1980. The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

STATUTES INVOLVED

Pertinent portions of Sections 6, 9, and 10 of the Federal Trade Commission Act, 15 U.S.C. 46, 49, and 50, as they existed at the time the petition for certiorari was filed, together with the judicial review provisions of the Administrative Procedure Act, 5 U.S.C. 701-706, are set forth at Pet. App. 144a-152a.

Pertinent portions of the Federal Trade Commission Improvements Act of 1980, Pub. L. No. 96-252, 94 Stat. 374, approved May 28, 1980, are set forth in App., *infra*, 1a-9a.

STATEMENT

In September 1976, the Federal Trade Commission issued a subpoena duces tecum to W.I.. Wearly in his capacity as an officer and chairman of the board of directors of Ingersoll-Rand Company. The subpoena was issued in connection with an investigation to determine whether Ingersoll, The Torrington Company (an Ingersoll

subsidiary), and other persons in the needle-roller bearing industry may have engaged in unfair methods of competition in violation of Section 5 of the Federal Trade Commission Act, 15 U.S.C. 45 (Pet. App. 3a-4a).

Petitioners Wearly and Ingersoll moved the Commission to quash the subpoena, claiming, among other things, that the subpoena required the production of confidential trade secrets that the Commission had no authority to demand (Pet. App. 4a). Several months of negotiations followed, during which the Commission's staff agreed to several modifications of the subpoena and advised petitioners that, upon production of the documents, the staff would recommend that the Commission grant special confidential treatment to any Ingersoll documents qualifying for such treatment.

The Commission affords "special confidential treatment" in appropriate cases to protect confidential commercial and financial information, the public disclosure of which may cause competitive injury. If the Commission finds that documents contain confidential business information and that disclosure of that information may cause competitive harm, the Commission agrees by letter not to disclose the confidential portions of the documents to any person other than a Commission employee or consultant[1] without first giving the submitting party 10 days notice of its intention to do so. This commitment does not apply to official requests of a congressional committee or subcommittee or to responses

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[1]Section 10 (para. 4) of the FTC Act, 15 U.S.C. 50, prescribes criminal penalties for any officer or employee of the Commission who discloses without Commission approval any information obtained by the Commission.

required by compulsory court process, although the Commission promises to give as much advance notice as possible in those circumstances.[2]

Petitioners eventually produced certain documents but declined to release any materials they considered to be confidential. They did not apply to the Commission for special confidential treatment.[3] The Commission subsequently granted in part and denied in part petitioner's motion to quash the subpoena (Pet. App. 128a-134a). The Commission reiterated the staff's statement that it would consider an application from Ingersoll for special confidential treatment if Ingersoll specified the documents for which such treatment was sought and set forth adequate supporting grounds (Pet. App. 134a).

Instead of requesting special confidential treatment, petitioners filed this action in the United States District Court for the District of New Jersey. Their complaint sought to enjoin the Commission from instituting a proceeding to enforce the subpoena and to have certain subpoena demands declared unlawful (Pet. App. 4a). The

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[2]The confidentiality procedures described above have been sustained in two circuits. *FTC* v. *Owens-Corning Fiberglass Corp.*, 1980-1 Trade Cases (CCH) para. 63,228, at 78,113 (D.C. Cir. Mar. 13, 1980); *FTC* v. *Anderson*, 1979-2 Trade Cases (CCH) para. 62,837, at 78,825-78,827 (D.C. Cir. 1979); *Exxon Corp.* v. *FTC*, 589 F. 2d 582, 586-687 (D.C. Cir. 1978), cert. denied, 441 U.S. 943 (1979); *FTC* v. *Rockefeller*, 441 F. Supp. 234, 242 (S.D.N.Y. 1977), aff'd, 591 F. 2d 182 (2d Cir. 1979). These procedures recently have been modified to comply with restrictions on disclosure of trade secrets and confidential commercial or financial information prescribed in Section 3(a) of the Federal Trade Commission Improvements Act of 1980, Pub. L. No. 96-252, 94 Stat. 374, approved May 28, 1980, App., *infra*, 1a-9a. See 45 Fed. Reg. 36338 (1980). The effect of these changes is discussed on pages 7-9, *infra*.

[3]See the Appendix filed by petitioners in the court below in case No. 78-1115, at 91-130.

district court denied petitioners' request for a preliminary injunction against enforcement of the subpoena but temporarily stayed the return date of the subpoena and ordered Ingersoll to hold the disputed documents in the constructive custody of the court (Pet. App. 4a).[4]

The Commission thereafter moved to dismiss the complaint, contending, *inter alia*, that all of petitioners' claims could be fully litigated in a subpoena enforcement proceeding brought by the Commission under 15 U.S.C. 49, and that petitioners therefore had an adequate remedy at law in the enforcement proceeding. The district court denied the Commission's motion to dismiss the complaint and entered a judgment (Pet. App. 89a-92a) declaring, *inter alia*, that the subpoena called for the production of documents containing trade secrets and confidential business information that are entitled "to protection from taking by the government for private use by unauthorized disclosure, or for public use without just compensation" (Pet. App. 90a). The judgment included a protective order which, in effect, continued the court's constructive custody of the contested documents (Pet. App. 91a-92a).

In the meantime, following the Third Circuit's vacation of the district court's stay order, the Commission filed an independent enforcement proceeding in the United States District Court for the District of Columbia, the district in which the Commission's "inquiry is carried on." See 15 U.S.C. 49. That enforcement proceeding has been held in abeyance pending the outcome of this litigation.[5]

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[4]The court of appeals subsequently vacated the district court's stay order (Pet. App. 4a-5a).

[5]The United States District Court for the District of Columbia, after hearing petitioners' confidentiality claims and other defenses, enforced the subpoenas (Pet. App. 4a). However, in an unreported opinion, the United States Court of Appeals for the District of Columbia Circuit vacated the enforcement order of the district court until completion of the proceedings in the Third Circuit (Pet. App. 5a).

On cross appeals from the judgment of the United States District Court for the District of New Jersey, the United States Court of Appeals for the Third Circuit held that the district court lacked jurisdiction to entertain petitioners' preenforcement suit. The court explained (Pet. App. 7a-8a):

> We start with the basic premise that a subpoena from the FTC is not self-enforcing. The agency must go to the district court and petition for an order directing compliance with the subpoena. In acting on that petition the district court's role is not that of a mere rubber stamp, but of an independent reviewing authority called upon to insure the integrity of the proceeding. * * * In the discharge of that duty, the court has the power to condition enforcement upon observance of safeguards to the respondent's valid interests. [Footnote omitted.]

The court added that "[r]esort to a court by recipients of investigative subpoenas before an action for enforcement has been commenced is generally disfavored" (Pet. App. 8a), citing this Court's decisions in *Reisman* v. *Caplin*, 375 U.S. 440 (1964), and *FTC* v. *Claire Furnace Co.*, 274 U.S. 160, 174 (1927), as well as court of appeals decisions.

The court also examined the case to determine whether it was sufficiently "ripe" for judicial review under the two-fold "fitness" and "hardship" tests formulated by this Court in the *Abbott Laboratories* trilogy.[6] The court found that neither test was satisfied. It pointed out that the controversy was not ripe for judicial review because there had been no final agency action: "the agency had yet

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[6] *Abbott Laboratories* v. *Gardner*, 387 U.S. 136, 149 (1967); *Toilet Goods Ass'n* v. *Gardner*, 387 U.S. 158, 162 (1967); *Gardner* v. *Toilet Goods Ass'n*, 387 U.S. 167 (1967).

to take a position on which documents should be subject to what type of confidential treatment" (Pet. App. 12a-13a). The court also explained that there was no substance to petitioners' assertion that, absent judicial intervention, petitioner Wearly would be confronted with the dilemma of either complying with the subpoena or facing possible criminal prosecution under Section 10 of the FTC Act, 15 U.S.C. 50. The court held that Wearly could await the institution of a proceeding by the Commission to enforce the subpoena with no risk to himself because liability does not arise under Section 10 if the witness has interposed a good faith objection to the subpoena (Pet. App. 13a). The court found that nothing in the record suggests that Wearly's noncompliance had been contumacious (Pet. App. 14a).

ARGUMENT

In *Reisman* v. *Caplin*, 375 U.S. 440 (1964), this Court reaffirmed the principle that courts should not entertain collateral suits challenging agency process when a statutory enforcement proceeding provides an adequate and effective means of securing a judicial hearing on objections to the process before any penalties attach. The court of appeals correctly applied the *Reisman* doctrine in this case. No decision of any court of appeals conflicts with the court of appeals' holding here. Moreover, petitioners' fears of competitive injury have been substantially eliminated by the newly enacted provisions of the Federal Trade Commission Improvements Act of 1980, Pub. L. No. 96-252, 94 Stat. 374, which provide additional protection for trade secrets and confidential commercial or financial information contained in subpoenaed documents. Further review by the Court is therefore unwarranted.

1. The gravamen of petitioners' district court complaint is that "the FTC [is] not entitled to production of documents containing valuable proprietary information in view of the FTC's refusal to provide adequate protection against disclosure" (Pet. 5). Petitioners' concerns about confidentiality are obviated by Pub. L. No. 96-252, which creates comprehensive protection for confidential documents and information obtained by the Commission in law enforcement investigations. Several of the provisions of the new statute are applicable in this case. The statute amends Section 6(d) of the FTC Act to prevent the Commission from making public "any trade secret or any commercial or financial information which is obtained from any person and which is privileged or confidential." The Commission is permitted to disclose such information to Federal and State law enforcement agencies, but only upon prior certification that the information will be maintained in confidence and will be used solely for official law enforcement purposes. Pub. L. No. 96-252, Section 3(a)(2), 94 Stat. 374, App., *infra*, 1a-2a.

The new statute also exempts from the mandatory disclosure requirements of the Freedom of Information Act, 5 U.S.C. 552 *et seq.*, "[a]ny material which is received by the Commission in any investigation, a purpose of which is to determine whether any person may have violated any provision of the laws administered by the Commission, and which is provided pursuant to any compulsory process under this Act or which is provided voluntarily in place of such compulsory process * * *" (Section 21(f) of the FTC Act, as added by Section 14 of Pub. L. No. 96-252, 94 Stat. 385, App., *infra*, 9a).

Moreover, upon delivery of subpoenaed documents to the Commission, additional safeguards apply to prevent disclosure of information contained therein, except as

specifically authorized by the new statute. These safeguards extend to "any document or transcript of oral testimony received by the Commission pursuant to compulsory process in an investigation, a purpose of which is to determine whether any person may have violated any provision of the laws administered by the Commission * * *" (Section 21(b)(1); App., *infra*, 2a-3a). The Commission is required to designate a custodian for such materials who is responsible for their use (Section 21(b)(2)(A) and (b)(3)(A); App., *infra*, 3a). The statute further declares that "[e]xcept as otherwise provided in this section, while in the possession of the custodian, no documentary material * * * shall be available for examination by any individual other than a duly authorized officer or employee of the Commission without the consent of the person who produced the material * * *" (Section 21(b)(3)(C); App., *infra*, 4a). The statute permits the custodian to deliver such material to officers or employees of the Commission only for use in "a proceeding against a person, partnership, or corporation" (Section 21(b)(4); App., *infra*, 4a).

Disclosure to persons other than Commission employees and officers for use in Commission proceedings is permitted only in two limited situations—(1) disclosure to either House of Congress or a committee or subcommittee thereof, which must be accompanied by notice to the owner or submitter of the information of the request if the information is designated as confidential (Section 21(b)(3)(C); App., *infra*, 4a); and (2) disclosure to Federal or State law enforcement agencies, upon certification by such agencies that the information will be maintained in confidence and used only for official law enforcement purposes (Section 21(b)(6); App., *infra*, 5a-6a).

These provisions assure petitioners that none of the documents sought by the Commission's subpoena will be publicly disclosed except in the course of an adjudicatory proceeding before the Commission. Trade secrets and confidential commercial information will be maintained in confidence and used only for official law enforcement purposes by the Commission and federal or state enforcement agencies.[7] The only exception Congress has provided is for itself. It is well established, of course, that courts will not interfere with the right of Congress to obtain information in aid of its legitimate legislative functions. *Eastland* v. *United States Servicemen's Fund*, 421 U.S. 491 (1975).[8]

In light of the comprehensive protections Congress has provided, there is no need for this Court to determine whether petitioners were entitled to maintain an action for declaratory and injunctive relief seeking substantially the same protections.

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[7]In presenting the Conference Report to the Senate, Senator Ford, a conferee and sponsor of the legislation, stated:

> the respective prohibitions and authorities contained in section 6(f) [prohibition of publication of trade secrets and confidential business information] * * * and 21(f) [exemption from the Freedom of Information Act] apply regardless of whether the information was obtained before or after the effective date of the act. Sections 21(a), 21(b) [custodian procedures and restrictions against disclosure other than as permitted by the Act] * * * apply to material obtained by the Commission after the effective date of the act.

126 Cong. Rec. S5678 (daily ed. May 21, 1980). See also S. Rep. No. 500, 96th Cong., 1st Sess. 29 (1979).

[8]The D.C. Circuit has stated that "the Commission may not deny Congress access to confidential documents, including those that contain trade secrets." *FTC* v. *Owens-Corning Fiberglass Corp.*, 1980-1 Trade Cases (CCH) para. 63,228, at 78-110 (D.C. Cir. Mar. 13, 1980), citing *Exxon Corp.* v. *FTC*, 589 F. 2d 582, 585-586 (D.C. Cir. 1978), cert. denied, 441 U.S. 943 (1979); *Ashland Oil, Inc.* v. *FTC*, 548 F. 2d 977, 979 (D.C. Cir. 1976).

2. Quite apart from the protections afforded by the new statute, the court of appeals' decision does not merit review by this Court. The holding of the court of appeals is correct and applies legal principles established long ago by the decisions of this Court. In *Reisman* v. *Caplin*, 375 U.S. 440 (1964), this Court affirmed dismissal of a complaint seeking preenforcement review of an IRS summons. The Court noted that the taxpayers could "challenge the summons on any appropriate ground" (375 U.S. at 449) in an enforcement proceeding instituted by the IRS, and therefore had an adequate remedy at law. See also *FTC* v. *Claire Furnace Co.*, 274 U.S. 160 (1927).

This Court's later decision in *Abbott Laboratories* v. *Gardner*, 387 U.S. 136 (1967), does not, as petitioners contend (Pet. 13), modify *Reisman*. In *Abbott Laboratories* the court found that the "promulgation [of FDA drug labeling regulations] puts petitioners in a dilemma that it was the very purpose of the Declaratory Judgment Act to ameliorate" (387 U.S. at 152) because compliance with those regulations required costly changes in labels and other printed material (*ibid.*). Noncompliance would result in "serious criminal and civil penalties for the unlawful distribution of 'misbranded' drugs" (*id.* at 153). As noted by the court of appeals (Pet. App. 13a-14a, 18a), petitioners face no such dilemma here.[9] As the court of appeals observed in its modified opinion (Pet. App. 18a, 13a-14a):

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[9]*St. Regis Paper Co.* v. *United States*, 368 U.S. 208 (1961)—which predated *Reisman*—is not relevant here. In that case, the Commission issued notices of default with respect to orders to file certain special reports. Under the statutory scheme involved in *St. Regis*, which is inapplicable to subpoenas, penalties were imposed for every day of noncompliance after notice of default. This Court stated that the defaulting company could have contested the order after receiving a notice of default without awaiting suit by the government for

> Besides failing to satisfy the *Abbott* requirement of finality, plaintiffs did not establish whether the decision to comply with the subpoena placed them on the horns of a dilemma. * * * Wearly [was] under no compulsion to either turn over the documents to the FTC or suffer civil or criminal penalties as a result. He [was] free to await enforcement proceedings, and at that time, or thereafter, [could have] rais[ed] his objections to the inadequacy of the FTC confidentiality procedures. Nor does there appear to be any merit to Wearly's assertion that his refusal to comply with the subpoena could [have] expos[ed] him to a criminal contempt under §10 of the FTC Act, 15 U.S.C. §50. As with the statute at issue in *Reisman* v. *Caplin*, *supra* at 447, "[contempt] does not apply where the witness appears and interposes good faith challenges to the summons." See *American Motors Corp.* v. *FTC*, *supra* at 1338; *First National City Bank* v. *FTC*, 538 F. 2d 937 (2d Cir. 1976); *Anheuser-Busch, Inc.* v. *FTC*, *supra* at 490. Here, of course, there is nothing in the record to suggest that Wearly's non-compliance has been contumacious. [Footnote omitted.]

As petitioners recognize (Pet. 10, 13), the court of appeals' holding that *Reisman* bars the present action accords with the decision of other courts of appeals that have considered the issue. See, *e.g.*, *American Motors Corp.* v. *FTC*, 601 F. 2d 1329, 1335-1337 (6th Cir.), cert. denied, No. 79-306 (Nov. 5, 1979); *Anheuser-Busch, Inc.* v. *FTC*, 359 F. 2d 487, 489 (8th Cir. 1966) (per Blackmun, J.).

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collection of forfeitures (*id.* at 226-227). The Court carefully distinguished the situation before it from that in *FTC* v. *Claire Furnace Co.*, 274 U.S. 160 (1927), where no threat of forfeitures existed for noncompliance and, accordingly, an injunction suit "would not lie" (368 U.S. at 226).

Finally, any possibility that a party's good faith resistance to a subpoena prior to judicial enforcement might be challenged in a criminal prosecution under Section 10 of the FTC Act, 15 U.S.C. 50, has been eliminated by Section 6 of Pub. L. No. 96-252, 94 Stat. 376, which provides that penalties may not be imposed under Section 10 for noncompliance with a Commission subpoena until a district court has entered an order directing compliance with the subpoena (App., *infra*, 2a).[10]

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[10]This provision amends the first paragraph of Section 10 of the FTC Act to include the words italicized below:

> Any person who shall neglect or refuse to attend and testify, or to answer any lawful inquiry or to produce *any* documentary evidence, if in his power to do so, in obedience to *an order of a district court of the United States directing compliance with* the subpoena or lawful requirement of the Commission, shall be guilty of an offense and upon conviction thereof by a court of competent jurisdiction shall be punished by a fine of not less than $1,000 nor more than $5,000, or by imprisonment for not more than one year, or by both such fine and imprisonment.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted.

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JULY 1980

DOJ-1980-07

APPENDIX

[Public Law No. 96-252]

An Act

To amend the Federal Trade Commission Act to extend the authorization of appropriations contained in such Act, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "Federal Trade Commission Improvements Act of 1980)).

* * * * *

DISCLOSURE OF COMMERCIAL OR FINANCIAL INFORMATION; QUARTERLY FINANCIAL REPORTS

SEC. 3. (a) Section 6(f) of the Federal Trade Commission Act (15 U.S.C. 46(f)) is amended—

(1) by striking out ", except trade secrets and names of customers, as it shall deem expedient" and inserting in lieu thereof "as are"; and

(2) by inserting before the period at the end thereof the following: "*Provided*, That the Commission shall not have any authority to make public any trade secret or any commercial or financial information which is obtained from any person and which is privileged or confidential, except that the Commission may disclose such information to officers and employees of appropriate Federal law enforcement agencies or to any officer or employee of any State law enforcement agency upon the prior

certification of an officer of any such Federal or State law enforcement agency that such information will be maintained in confidence and will be used only for official enforcement purposes".

* * * * *

ENFORCEMENT AUTHORITY

SEC. 6. The first undesignated paragraph of section 10 of the Federal Trade Commission Act (15 U.S.C. 50) is amended—

(1) by inserting "any" after "produce"; and

(2) by inserting "an order of a district court of the United States directing compliance with" after "obedience to".

* * * * *

CONFIDENTIALITY

SEC. 14. The Federal Trade Commission Act (15 U.S.C. 41 et seq.), as amended in section 13, is further amended by inserting after section 20 the following new section:

"SEC. 21. (a) For purposes of this section:

"(1) The term 'material' means documentary material, written reports or answers to questions, and transcripts of oral testimony.

"(2) The term 'Federal agency' has the meaning given it in section 552(e) of title 5, United States Code.

"(b)(1) With respect to any document or transcript of oral testimony received by the Commission pursuant to compulsory process in an investigation, a purpose of which is to determine whether any person may have violated any provision of the laws administered by the

Commission, the procedures established in paragraph (2) through paragraph (7) shall apply.

"(2)(A) The Commission shall designate a duly authorized agent to serve as custodian of documentary material, or written reports or answers to questions, and transcripts of oral testimony, and such additional duly authorized agents as the Commission shall determine from time to time to be necessary to serve as deputies to the custodian.

"(B) Any person upon whom any demand for the production of documentary material has been duly served shall make such material available for inspection and copying or reproduction to the custodian designated in such demand at the principal place of business of such person (or at such other place as such custodian and such person thereafter may agree and prescribe in writing or as the court may direct pursuant to section 20(h)) on the return date specified in such demand (or on such later date as such custodian may prescribe in writing). Such person may upon written agreement between such person and the custodian substitute copies for originals of all or any part of such material.

"(3)(A) The custodian to whom any documentary material, written reports or answers to questions, and transcripts of oral testimony are delivered shall take physical possession of such material, reports or answers, and transcripts, and shall be responsible for the use made of such material, reports or answers, and transcripts, and for the return of material, pursuant to the requirements of this section.

"(B) The custodian may prepare such copies of the documentary material, written reports or answers to questions, and transcripts of oral testimony as may be required for official use by any duly authorized officer or

employee of the Commission under regulations which shall be promulgated by the Commission. Notwithstanding subparagraph (C), such material and transcripts may be used by any such officer or employee in connection with the taking of oral testimony under this section.

"(C) Except as otherwise provided in this section, while in the possession of the custodian, no documentary material, reports or answers to questions, and transcripts of oral testimony shall be available for examination by any individual other than a duly authorized officer or employee of the Commission without the consent of the person who produced the material or transcripts. Nothing in this section is intended to prevent disclosure to either House of the Congress or to any committee or subcommittee of the Congress, except that the Commission immediately shall notify the owner or provider of any such information of a request for information designated as confidential by the owner or provider.

"(D) While in the possession of the custodian and under such reasonable terms and conditions as the Commission shall prescribe—

> "(i) documentary material or written reports shall be available for examination by the person who produced the material, or by any duly authorized representative of such person; and
>
> "(ii) answers to questions in writing and transcripts of oral testimony shall be available for examination by the person who produced the testimony or by his attorney.

"(4) Whenever the Commission has instituted a proceeding against a person, partnership, or corporation,

the custodian may deliver to any officer or employee of the Commission documentary material, written reports or answers to questions, and transcripts of oral testimony for official use in connection with such proceeding. Upon the completion of the proceeding, the officer or employee shall return to the custodian any such material so delivered which has not been received into the record of the proceeding.

"(5) If any documentary material, written reports or answers to questions, and transcripts of oral testimony have been produced in the course of any investigation by any person pursuant to compulsory process and—

"(A) any proceeding arising out of the investigation has been completed; or

"(B) no proceeding in which the material may be used has been commenced within a reasonable time after completion of the examination and analysis of all such material and other information assembled in the course of the investigation; then the custodian shall, upon written request of the person who produced the material, return to the person any such material which has not been received into the record of any such proceeding (other than copies of such material made by the custodian pursuant to paragraph (3)(B)).

"(6) The custodian of any documentary material, written reports or answers to questions, and transcripts of oral testimony may deliver to any officers or employees of appropriate Federal law enforcement agencies, in response to a written request, copies of such material for use in connection with an investigation or proceeding under the jurisdiction of any such agency. Such materials shall not be made available to any such agency until the custodian receives certification of any officer of such

agency that such information will be maintained in confidence and will be used only for official law enforcement purposes. Such documentary material, written reports or answers to questions, and transcripts of oral testimony may be used by any officer or employee of such agency only in such manner and subject to such conditions as apply to the Commission under this section. The custodian may make such materials available to any State law enforcement agency upon the prior certification of any officer of such agency that such information will be maintained in confidence and will be used only for official law enforcement purposes.

"(7) In the event of the death, disability, or separation from service in the Commission of the custodian of any documentary material, written reports or answers to questions, and transcripts of oral testimony produced under any demand issued under this Act, or the official relief of the custodian from responsibility for the custody and control of such material, the Commission promptly shall—

> "(A) designate under paragraph (2)(A) another duly authorized agent to serve as custodian of such material; and
>
> "(B) transmit in writing to the person who produced the material or testimony notice as to the identity and address of the successor so designated.

Any successor designated under paragraph (2)(A) as a result of the requirements of this paragraph shall have (with regard to the material involved) all duties and responsibilities imposed by this section upon his predecessor in office with regard to such material, except that he shall not be held responsible for any default or dereliction which occurred before his designation.

"(c)(1) All information reported to or otherwise obtained by the Commission which is not subject to the requirements of subsection (b) shall be considered confidential when so marked by the person supplying the information and shall not be disclosed, except in accordance with the procedures established in paragraph (2) and paragraph (3).

"(2) If the Commission determines that a document marked confidential by the person supplying it may be disclosed because it is not a trade secret or commercial or financial information which is obtained from any person and which is privileged or confidential, within the meaning of section 6(f), then the Commission shall notify such person in writing that the Commission intends to disclose the document at a date not less than 10 days after the date of receipt of notification.

"(3) Any person receiving such notification may, if he believes disclosure of the document would cause disclosure of a trade secret, or commercial or financial information which is obtained from any person and which is privileged or confidential, within the meaning of section 6(f), before the date set for release of the document, bring an action in the district court of the United States for the district within which the documents are located or in the United States District Court for the District of Columbia to restrain disclosure of the document. Any person receiving such notification may file with the appropriate district court or court of appeals of the United States, as appropriate, an application for a stay of disclosure. The documents shall not be disclosed until the court has ruled on the application for a stay.

"(d)(1) The provisions of subsection (c) shall not be construed to prohibit—

"(A) the disclosure of information to either House of the Congress or to any committee or subcommittee of the Congress, except that the Commission immediately shall notify the owner or provider of any such information of a request for information designated as confidential by the owner or provider;

"(B) the disclosure of the results of any investigation or study carried out or prepared by the Commission, except that no information shall be identified nor shall information be disclosed in such a manner as to disclose a trade secret of any person supplying the trade secret, or to disclose any commercial or financial information which is obtained from any person and which is privileged or confidential;

"(C) the disclosure of relevant and material information in Commission adjudicative proceedings or in judicial proceedings to which the Commission is a party; or

"(D) the disclosure to a Federal agency of disaggregated information obtained in accordance with section 3512 of title 44, United States Code, except that the recipient agency shall use such disaggregated information for economic, statistical, or policymaking purposes only, and shall not disclose such information in an individually identifiable form.

"(2) Any disclosure of relevant and material information in Commission adjudicative proceedings or in judicial proceedings to which the Commission is a party shall be governed by the rules of the Commission for adjudicative proceedings or by court rules or orders, except that the rules of the Commission shall not be

amended in a manner inconsistent with the purposes of this section.

"(e) Nothing in this section shall supersede any statutory provision which expressly prohibits or limits particular disclosures by the Commission, or which authorizes disclosures to any other Federal agency.

"(f) Any material which is received by the Commission in any investigation, a purpose of which is to determine whether any person may have violated any provision of the laws administered by the Commission, and which is provided pursuant to any compulsory process under this Act or which is provided voluntarily in place of such compulsory process shall be exempt from disclosure under section 552 of title 5, United States Code."

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1979

No. 79-1653

W. L. WEARLY, *et al.*,

Petitioners,

—v.—

FEDERAL TRADE COMMISSION, *et al.*,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

PETITIONERS' RESPONSE TO RESPONDENTS' BRIEF IN OPPOSITION

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STATEMENT

The petition was filed on April 18, 1980. Subsequently, on May 28, 1980, Congress enacted the Federal Trade Commission Improvement Act (Pub. L. 96-252, 94 Stat. 374, hereinafter referred to as the "1980 Amendments").

The 1980 Amendment to Section 10 of the Federal Trade Commission Act (hereinafter referred to as "FTC

Act"), 15 U.S.C. § 50[1] affirmatively supports the petition, and justifies this Court in remanding *per curiam*.

The 1980 Amendments Officially Confirm That Petitioner Wearly Was In Criminal Jeopardy In 1977

The Federal Trade Commission (FTC) insisted that the District Court did not have jurisdiction of what it described as a "preenforcement" action for a declaratory judgment, and it refused to present any evidence or argument on the merits. (Pet. App. 12a, fn. 8) The Court of Appeals accepted respondent's contention that the District Court did not have jurisdiction, and did not review the decision, opinions, judgment and protective order of the District Court on their merits.

The District Court held that Section 10 placed Wearly in the criminal jeopardy that satisfied the "horns of a dilemma" criteria in *Abbott Laboratories*[2] and that it was thereby authorized to take jurisdiction of the action for declaratory judgment in its discretion. (Pet. App. 135a-140a) The Court of Appeals disagreed, holding that "Wearly [was] under no compulsion to either turn over the documents to the FTC or suffer civil or criminal penalties as a result." (FTC. Br. 11)

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1 Amended Section 10 is printed at page 12 of respondents' brief (referred to hereinafter as "FTC Br. ____"), and also in petitioner's separate appendix to the petition, at pages 141a-142a, hereinafter referred to as "Pet. App. _____".

2 *Abbott Laboratories* v. *Gardner*, 387 U.S. 136 (1967); *Toilet Goods Association, Inc.* v. *Gardner*, 387 U.S. 158 (1967); and *Gardner* v. *Toilet Goods Association, Inc.*, 387 U.S. 167 (1967).

The FTC brief in opposition states "any possibility that a party's good faith resistance to a subpoena prior to judicial enforcement might be challenged in a criminal prosecution under Section 10 of the FTC Act, 15 U.S.C. 50, *has been* eliminated by" the 1980 Amendment. (FTC Br. 12, emphasis supplied). The elimination of the offense from the statute in 1980 is *not retroactive,* and fortifies the contention of petitioners that the Court of Appeals ruling was erroneous. Even today, it would be legally possible to prosecute Wearly for his failure to respond to the subpoena in 1977, but for the District Court's intervention. The quotation from the Senate Report (Pet. 12) explained the need for the amendment to eliminate the very offense which Wearly endeavored to avoid committing by seeking the declaratory judgment. The report states specifically that the amendment was necessary to eliminate the very threat which the District Court found Wearly faced. (Pet. 12) The Conference Report which was the basis for acceptance of the final bill by both Houses stated:

"ENFORCEMENT AUTHORITY"

> *Senate Amendment.*—The Senate amendment would amend Section 10 of the FTC Act to provide that criminal penalties for failure to comply with FTC subpoenas apply only after a United States District Court orders compliance." (H. Rep. 96-917, 96th Cong. 2d Sess. p.29)

It is clear that Congress understood that refusal to comply with a FTC subpoena, even if respondent acted in "good faith", left him in jeopardy of criminal penalties of an "extreme nature" under Section 10 (Pet.

App. 143a). The 1980 Amendment eliminates that jeopardy, but only *in the future*.

As stated in the petition, the sole purpose of issuing the subpoena to Wearly individually, and not to the corporations which owned the documents, was to achieve the *in terrorem* effect of the threat of criminal action under Section 10.[3] Before enactment of this amendment, parties served with FTC subpoenas, such as petitioner Wearly, were forced to risk criminal penalties, even when the "good faith" of their challenges to agency subpoenas were such that reasonable men could disagree. *See, United States* v. *St. Regis Paper Co.*, 368 U.S. 208 (1961) (discussed in the petition at 10-11) upon which Wearly relied, but which the Court of Appeals did not mention in its opinion.

The Court of Appeals held that the case was not "ripe for preenforcement" under *Abbott Laboratories* because Wearly (in its view) could raise all of the objections raised below in an enforcement proceeding brought by the petitioner under Section 9 (15 U.S.C. § 49). However, the key point involved in Wearly's petition to this Court is not whether he could have raised those objections in an enforcement proceeding, but whether he was in criminal jeopardy under Section 10 even though his refusal to submit documents was "in good faith". The Third Circuit erroneously concluded that Section 10 did not create any risk of criminal jeopardy since Wearly "acted in good faith", but the view of Congress is directly to the contrary.[4]

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3 The threat of criminal jeopardy was not speculation by Wearly: the FTC specifically warned him of criminal penalties for failure to comply with the subpoena. (Pet. 4, 12)

4 Furthermore, in ruling that the District Court did not have jurisdiction on the ground that Wearly was not in criminal jeopardy,

The action of Congress in amending Section 10 to eliminate specifically the jeopardy of criminal liability for refusal to produce documents, even though the refusal was made in good faith, should be considered by this Court as authoritative and final. It is not simply the view or opinion of a single member of Congress, or a subcommittee, it is the expression of Congress itself expressed in the statute and the language of the Senate Report which was the predicate for the amendment.

The Confidentiality Provisions Of The 1980 Amendments Are Not Before This Court, And Should Not Be Considered

The FTC contends that since the 1980 Amendments' confidentiality provisions eliminate "substantially" petitioners' fears of competitive injury, "Further review by the Court is therefore unwarranted". (FTC Br. 6) The fallacy in the FTC's contention is that on the state of the record before this Court, none of the issues of confidentiality have been presented to this Court. The *only* issue presented by the petition for a writ of certiorari is whether the District Court had *jurisdiction* to entertain the action for a declaratory judgment. Petitioners could not properly present or discuss the merits of their case on their petition for a writ of certiorari, as the Court of Appeals did not consider or pass on them.

This Court does not have before it the complaint, or Part II of the District Court's judgment which

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the Court of Appeals ignored completely the position of petitioners Ingersoll-Rand and Torrington, although it acknowledged that the subpoena was issued only to Wearly. (Pet. App. 3a).

constitutes the protective order. (Pet. App. 92a) Therefore, this Court should not determine whether the confidentiality provisions of the 1980 Amendments deprive petitioners of the right to maintain this action for declaratory and injunctive relief instituted in 1977. (FTC Br. 9)

CONCLUSION

1. The 1980 Amendment to Section 10 of the FTC Act completely supports petitioners' claim that the District Court did have jurisdiction of this action.

2. This Court cannot consider on this petition what effect, if any, the 1980 Amendment provisions on confidentiality have on the District Court's judgment because (a) the Court of Appeals did not review the merits of the case, and (b) the District Court should consider this matter in the first instance.

3. The petition for a writ of certiorari should be granted and the Court of Appeals' decision should be summarily reversed *per curiam*, and remanded for further consideration.

Respectfully submitted,

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August 13, 1980